Chart in focus

Corporate funding in Europe: Bonds replacing loans?

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Since the height of the financial crisis at the end of 2008, the use of different debt finance instruments by companies in the euro area has been diverging remarkably: whereas the outstanding volume of traditional bank loans has fallen by about EUR 360 bn on aggregate (-7.4%), net issuance of corporate bonds (i.e. long-term debt securities) has amounted to almost exactly the same cumulative (but positive) figure over the same period of time (a rise by 63%). So, is capital market funding simply serving as a substitute for bank loans that may have become scarcer in the wake of the global financial crisis, the European debt crisis and mounting regulatory pressure on banks?

EMU: Cumulative change in outstanding funding instruments of non-financial firms

EUR bn, January 2009 = 0

* Including loans transferred to national bad bank in Spain in Dec 12.
** Adjusted for reclassification of issuers in Germany in Jan 11.

Sources: ECB, DB Research

Despite the striking correspondence between the numbers, such a conclusion would be premature.

1.) For the past 4½ years, firms' net external debt funding has been zero. This is a dramatic change from a strong expansion in pre-crisis times, when loans and bonds combined rose, for example, by more than 10% annually on average from 2004 to 2008. This structural break reflects both the restructuring of the financial sector and the macroeconomic dislocations Europe has gone through since the beginning of 2009.

2.) The choice of starting point gives rise to a more dramatic impression than would have resulted from a longer-term comparison. Lending to non-financial firms in the euro area peaked in January 2009, after a long bubble – volumes today still remain higher than at end-2007 and at twice their 1999 level, when the euro started.

3.) The EMU total masks significant differences between individual countries, and not only in the most obvious way:

- In line with the euroland average, German firms did not grow their external funding base but saw increases in bonds and decreases in loans of de facto matching magnitude. That German companies did not "outperform" the rest of the euro area, despite a much healthier economy, may be explained by the fact that they could draw increasingly on internal funds thanks to sound profit generation, reducing their demand for credit.
- The development of Italian companies' debt funding structure tracked that of German firms and both funding channels held up surprisingly well compared with the gloomy mood inside and outside the country.
- The main drivers of the overall EMU picture have been the other two large economies in euroland: France accounted for the bulk (EUR 160 bn) of the rise in the bond volume. Here, loans remained broadly flat and it may be justified indeed to speak of debt capital markets replacing banks as providers of fresh corporate funds.

The other country having a major impact is Spain. Even taking into account the transfer of loans to the bad bank SAREB at the end of last year, the volume of loans to non-financial enterprises has dropped by a full EUR 260 bn (27%) over the past 4½ years. This includes writedowns on exposures that (probably) will not be recovered, yet even new loan flows alone clearly signal the deep wounds the end of the giant domestic real estate boom has inflicted on the entire economy and its financial system. Consequently, Spanish firms have also not been willing –

or able – to compensate for a lack of bank funding by accessing bond markets: bond funding, in their case, remains negligible.

All in all, while there has indeed been some replacing of bank loans by corporate bonds in a few countries, distinctive national factors and a banking sector that nearly everywhere is still much weaker than prior to the crisis are likely to have played at least as important a role.

See also:
Corporate bond issuance in Europe: Where do we stand and where are we heading?

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