



German-US-Economic-Studies-Term Student Exchange Programm (GUEST)
Hannover International Summer School of Economics & Management (HISSEMA)
California State Polytechnic University (CalPoly), Pomona

Agenda

NORD/LB at a glance

Torsten Windels, Economist

The European/German Banking System

Torsten Windels, Economist

Some thoughts about the new US trade policy

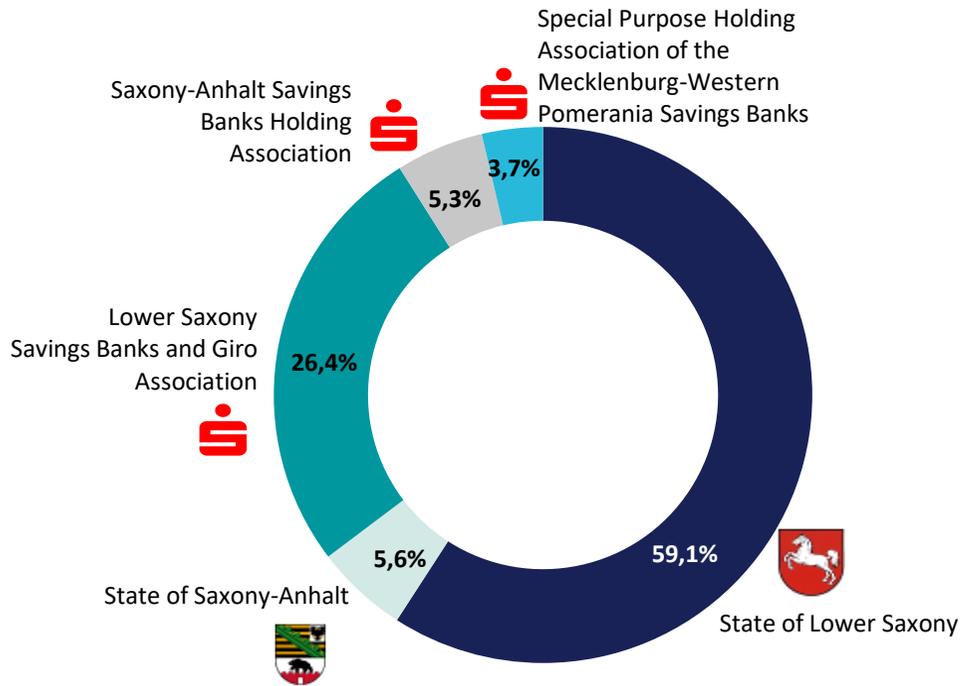
Tobias Basse, NORD/LB Fixed Income & Macro Research

“Varieties of Capitalism” (2001, Peter A. Hall (US Political Scientist), David Soskice (British Economist))

Torsten Windels, Economist

Ownership structure and regional network.

Ownership Structure^{1,2}



Headquarters and ownership region



1) Total differences are rounding differences
2) As at 31 December 2018

Our business segments 2018.



Private and Commercial Customers

- Private customer business
- Private Banking
- Commercial customer business
- Insurance services for private customers in cooperation with public insurances in Lower Saxony



Corporate Customers

- Corporate customer business
- Agricultural Banking
- Finance with public and cooperative housing associations
- Corporate Finance
- Leasing



Savings Bank Network Customers

- Savings Bank Network/ extended network
- Corporate customers/ syndication loans
- Municipal customers



Markets

Business with

- Institutional customers
- Savings banks/ financial institutions
- Public-sector customers



Energy and Infrastructure Customers

- Renewable energy finance
- Infrastructure finance



Real Estate Banking Customers

- Commercial real estate finance
- International social care property finance



Ship Customers

Ship finance

- Container vessels
- Bulker
- Tanker
- Multi purpose vessels
- Offshore Oil & Gas
- Cruise ships / Ferries



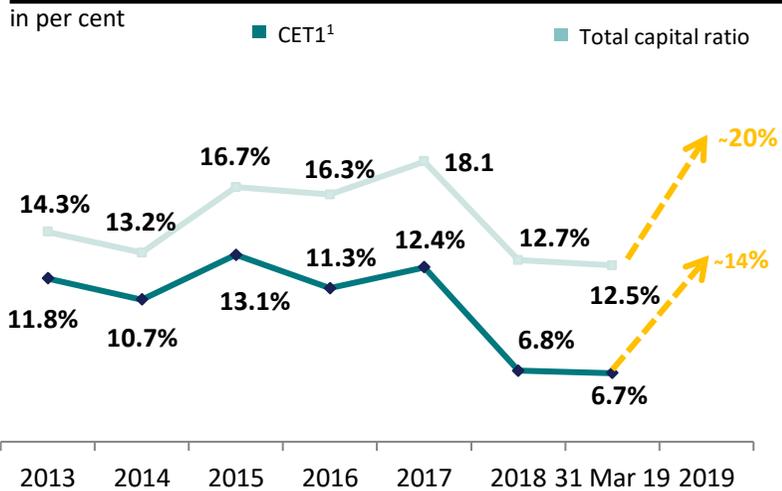
Aircraft Customers

Aircraft finance

- Narrow-/Wide-bodies
- Freighters
- Regional Jets
- Turboprops
- Helicopter
- Spare Engines
- Finance/Operating Lease

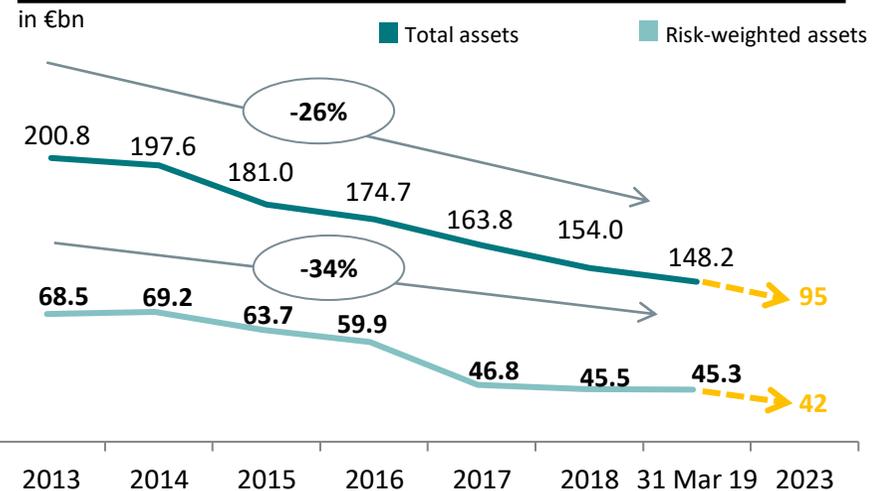
Capital ratios fell temporarily due to annual loss 2018. Strategic reduction of total assets in the long run.

Equity ratios (CET1)^{1,2,3}



SREP minimum requirements (P2R)		
CET1 ¹	since 1 Jan 2018	9.60 %
	since 1 Mar 2019	10.57 %
Total capital ratio	since 1 Jan 2018	13.10 %
	since 1 Mar 2019	14.07 %

Total assets and RWA³



Ratios		
LCR ratio	31 Mar 2019	150 %
	31 Dec 2018	150 %
Leverage ratio	31 Mar 2019	2.1 %
	31 Dec 2018	2.1 %

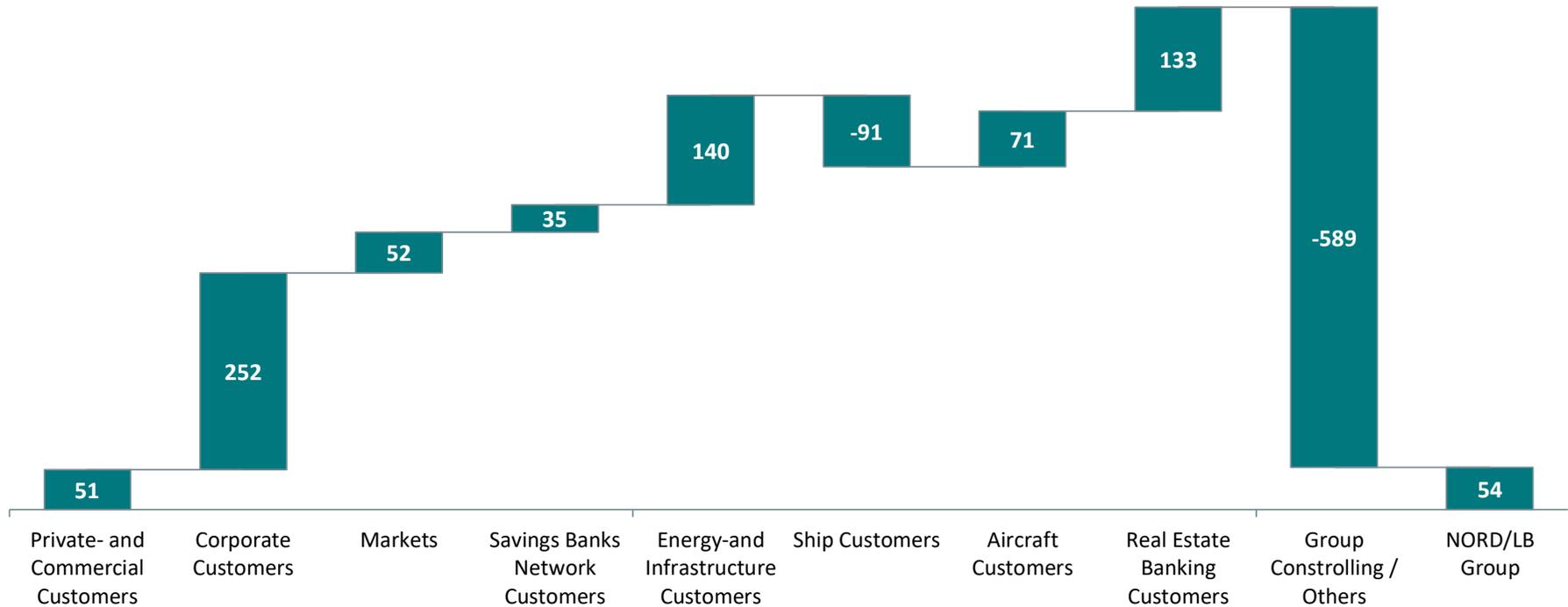
1) CET1 (Common Equity Tier 1)
 2) 2010 to 2013: SolVV/HGB, since 2014 CRR/Basel III (phase-in)
 3) Due to the adjustment of regulatory data as at 31 December 2017, the prior-year figures were adjusted accordingly

Good diversification throughout the business segments.

Operative earnings of NORD/LB Group^{1,2}

as at 31 Dec 2018

in €m



1) Earnings before loan loss provisions, reorganisation/restructuring and taxes

2) Total differences are rounding differences

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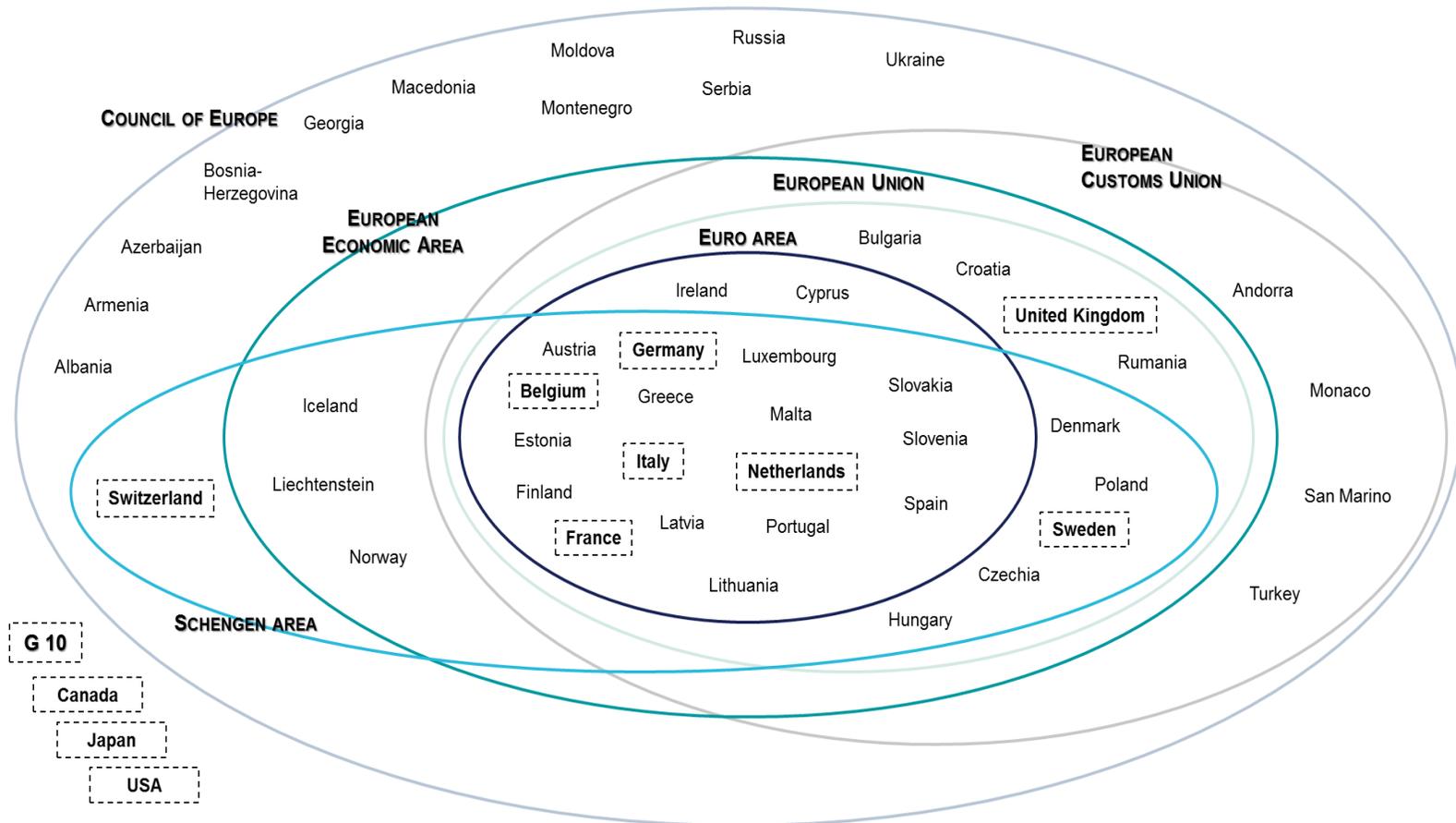
Some thoughts about the new US trade policy

Tobias Basse, NORD/LB Fixed Income & Macro Research

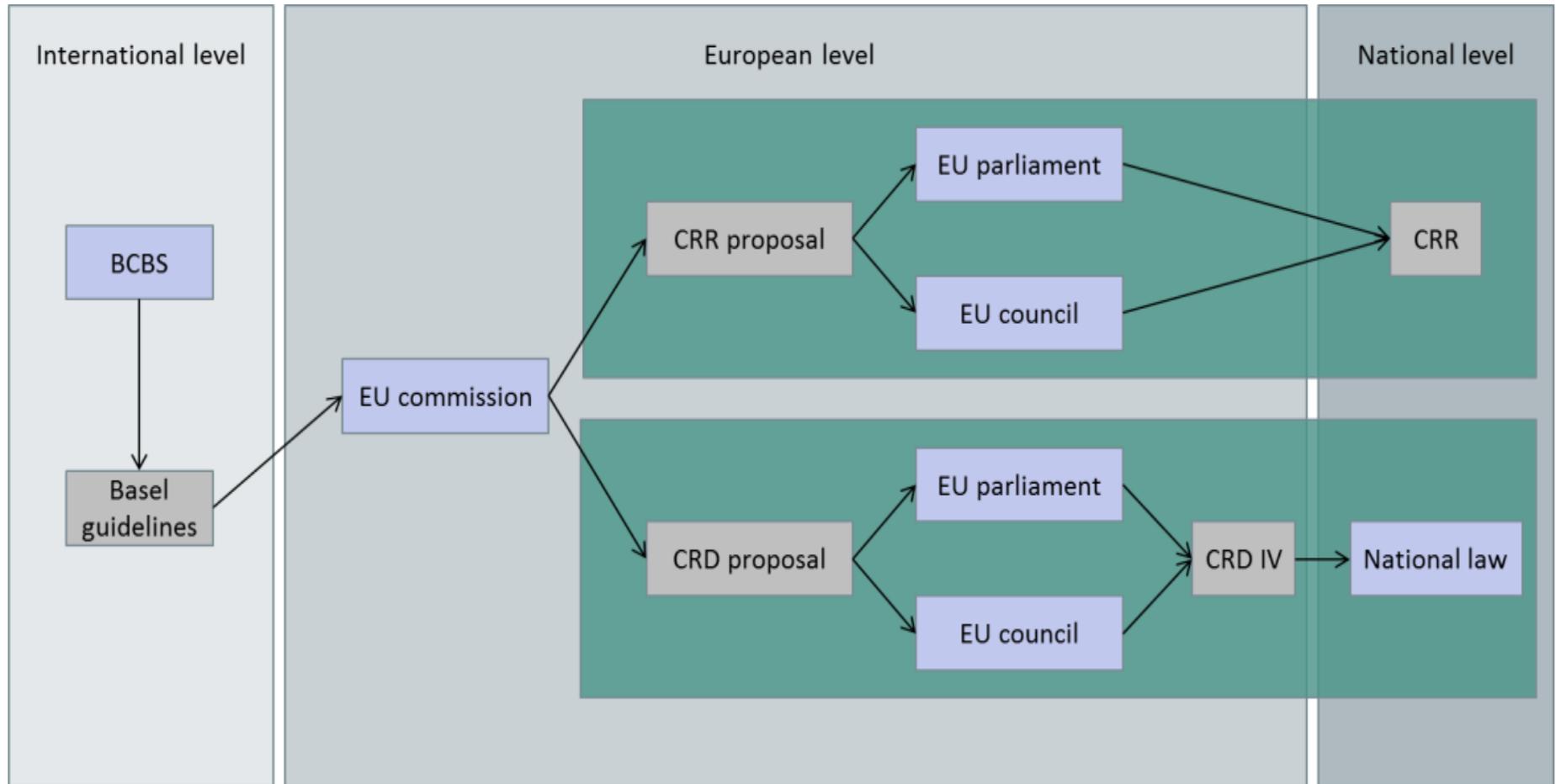
“Varieties of Capitalism” (2001, Peter A. Hall (US Political Scientist), David Soskice (British Economist))

Torsten Windels, Economist

Banking Supervisory: Members in the Euro-Area, EU, EEA, European Customs Union, Schengen-Area, Council of Europe and the G10

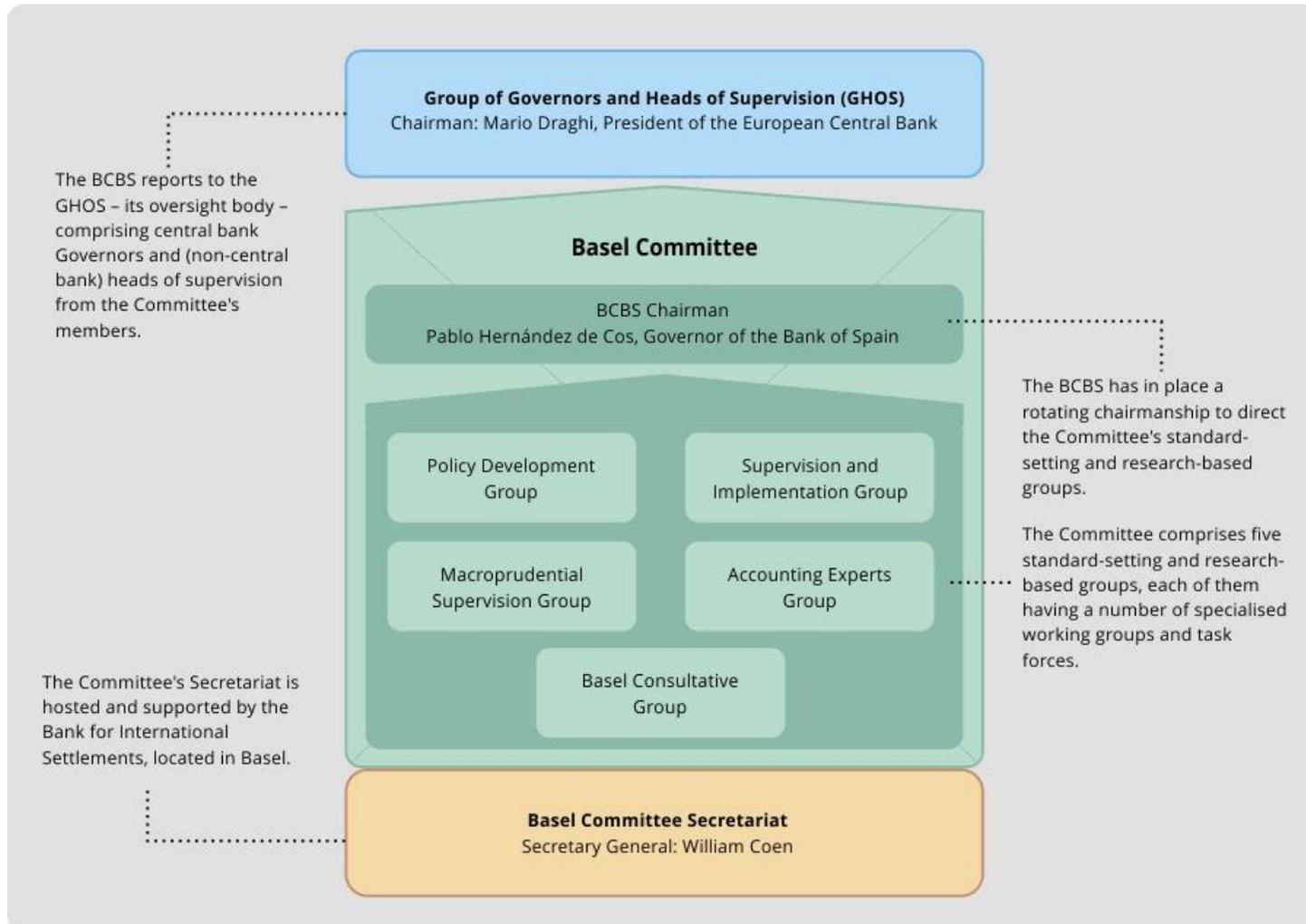


Banking Supervisory: From BCBS (Basel Committee on Banking Supervision) to National law



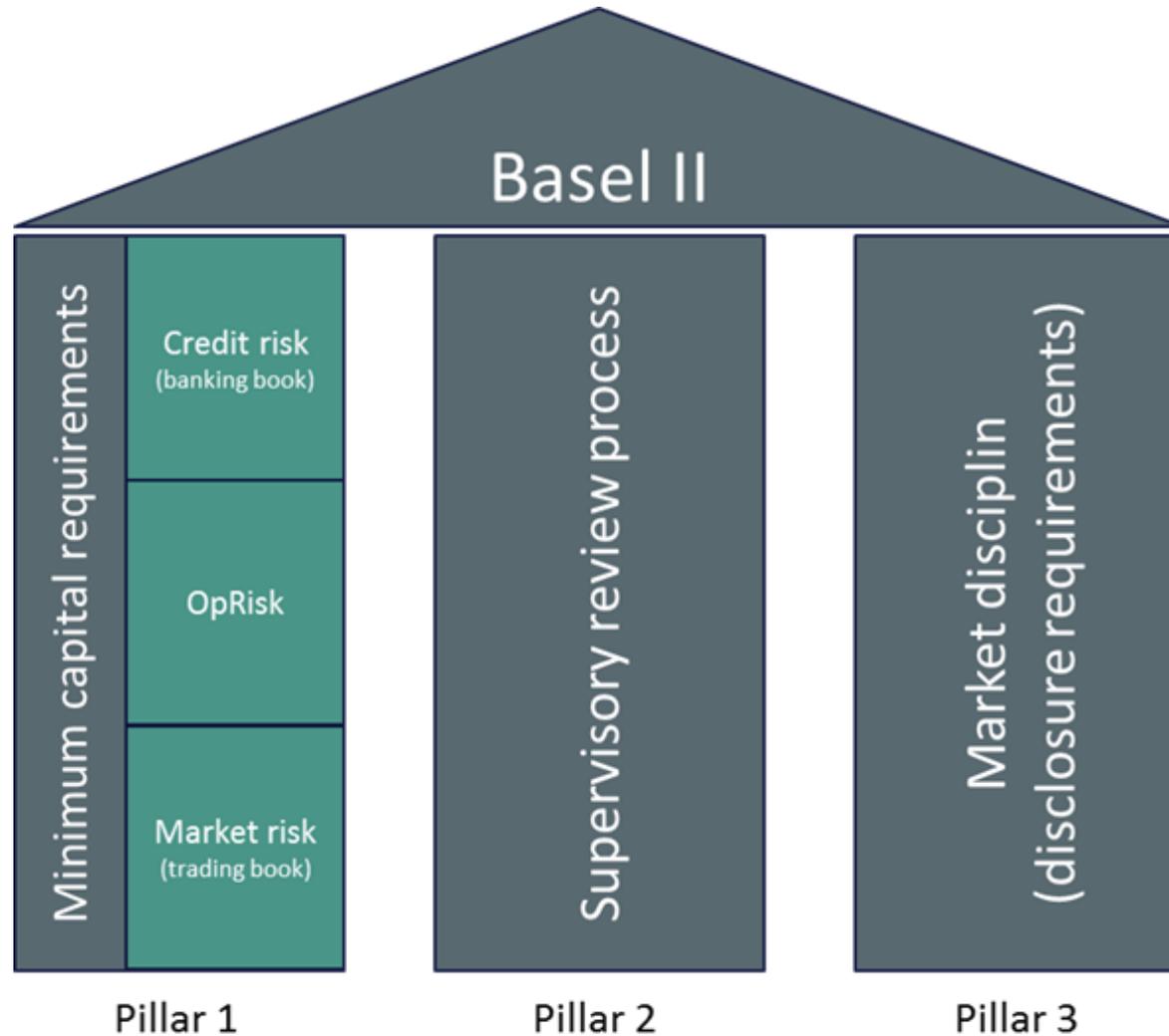
Source: NORD/LB Fixed Income & Macro Research

International Banking Regulation: BCBS (Basel Committee on Banking Supervision)



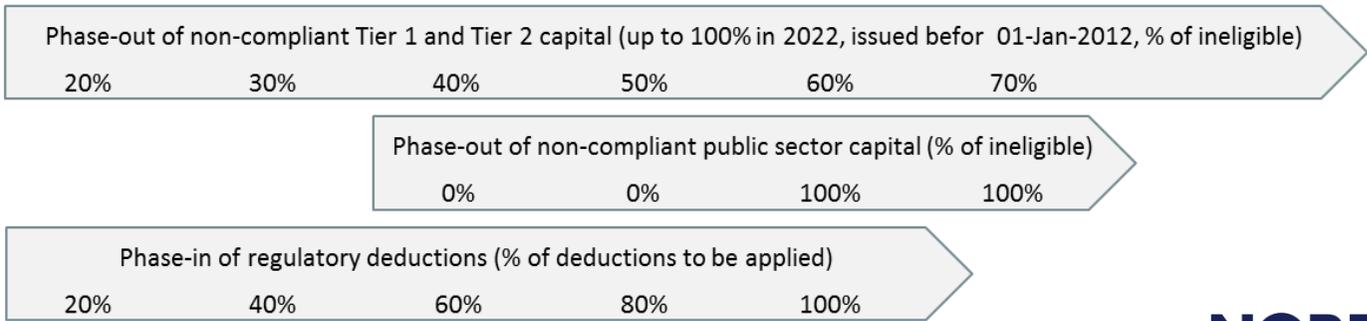
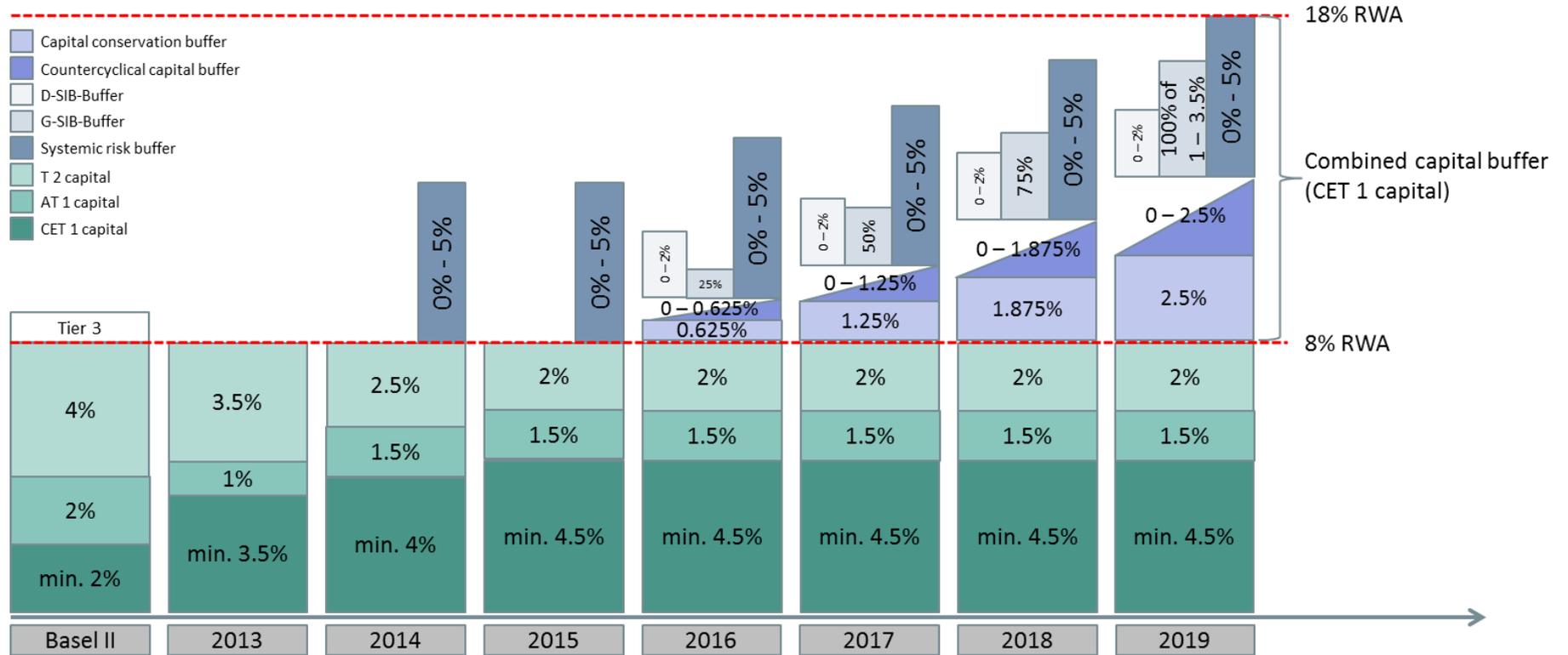
Source: BIS

Banking Supervisory: The three pillar system (Basel II (1996), Basel I (1988))



Source: NORD/LB Fixed Income & Macro Research

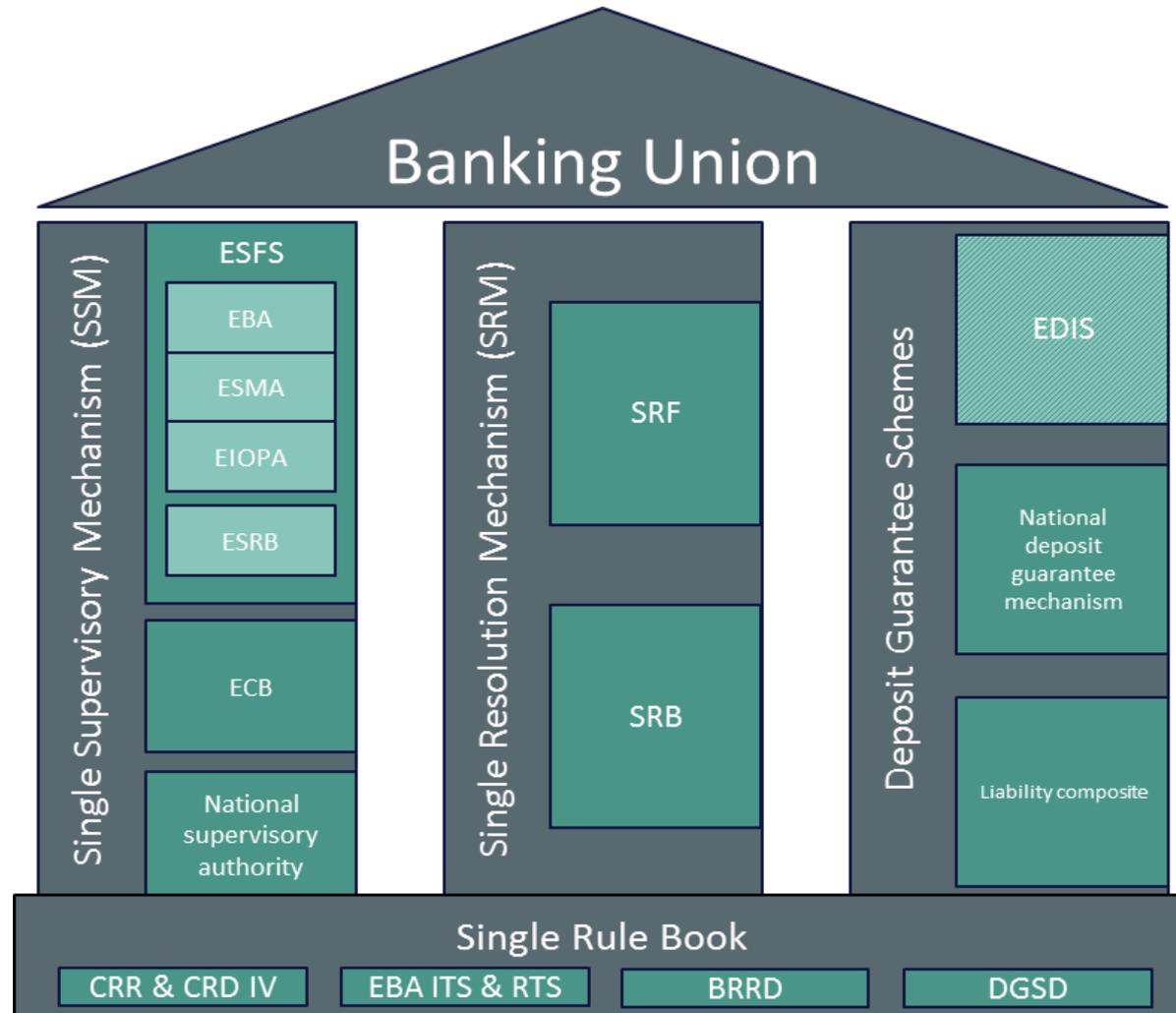
Banking Supervisory: Equity requirements since Basel II



Banking Supervisory: List of Global Systemic Important Banks (G-SIBs, Nov. 2018)

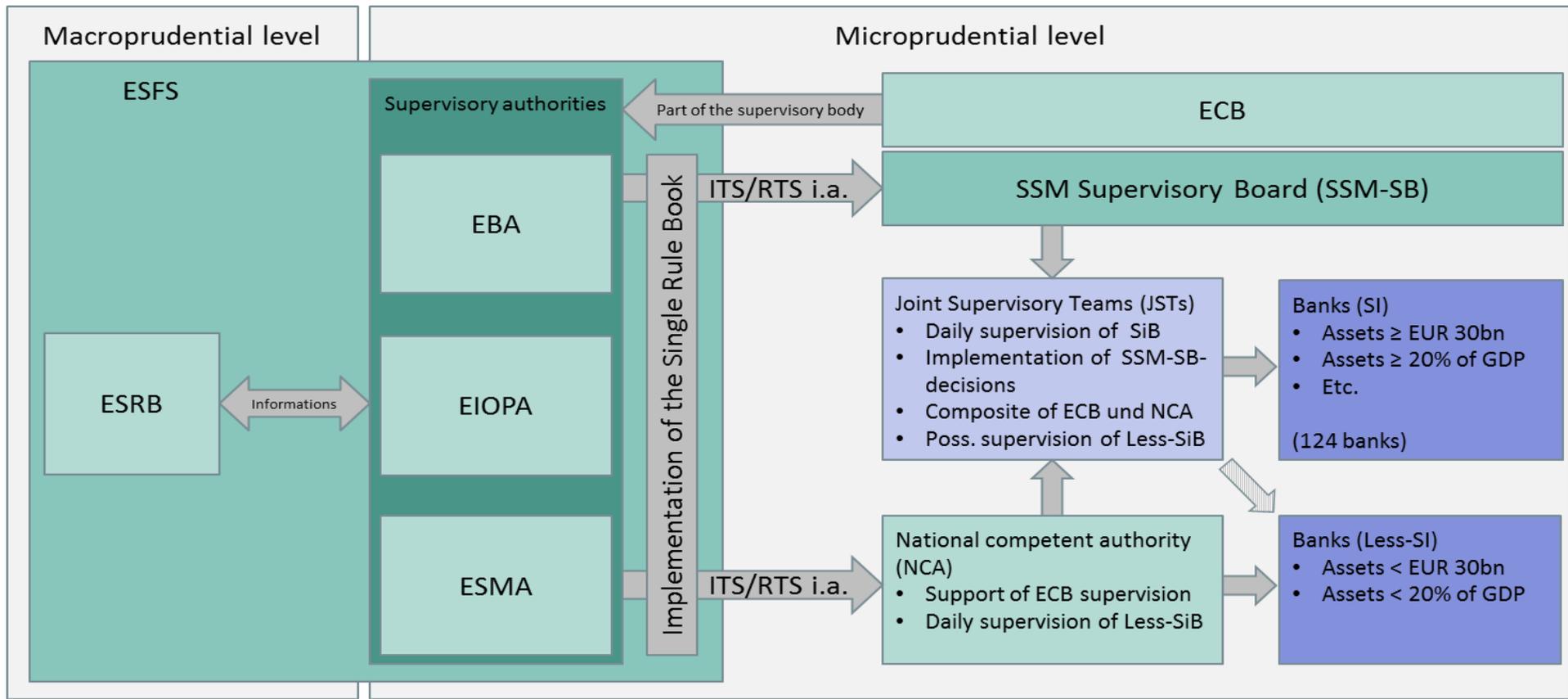
FSB's G-SIB list																				
G-SIB-bucket	Ratio of G-SIB-buffer	G-SIBs (alphabetical order within each bucket)																		
5	3.5%	(empty)																		
4	2.5%	JP Morgan Chase																		
3	2.0%	Citigroup Deutsche Bank HSBC																		
2	1.5%	Bank of America Bank of China Barclays BNP Paribas Goldman Sachs Industrial and Commercial Bank of China Ltd. Mitsubishi UFJ FG Wells Fargo																		
1	1.0%	<table border="0"> <tr> <td>Agricultural Bank of China</td> <td>Morgan Stanley</td> </tr> <tr> <td>Bank of New York Mellon</td> <td>Royal Bank of Canada</td> </tr> <tr> <td>China Construction Bank</td> <td>Santander</td> </tr> <tr> <td>Credit Suisse</td> <td>Société Générale</td> </tr> <tr> <td>Groupe BPCE</td> <td>Standard Chartered</td> </tr> <tr> <td>Groupe Crédit Agricole</td> <td>State Street</td> </tr> <tr> <td>ING Bank</td> <td>Sumitomo Mitsui FG</td> </tr> <tr> <td>Mizuho FG</td> <td>UBS</td> </tr> <tr> <td></td> <td>UniCredit Group</td> </tr> </table>	Agricultural Bank of China	Morgan Stanley	Bank of New York Mellon	Royal Bank of Canada	China Construction Bank	Santander	Credit Suisse	Société Générale	Groupe BPCE	Standard Chartered	Groupe Crédit Agricole	State Street	ING Bank	Sumitomo Mitsui FG	Mizuho FG	UBS		UniCredit Group
Agricultural Bank of China	Morgan Stanley																			
Bank of New York Mellon	Royal Bank of Canada																			
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Groupe BPCE	Standard Chartered																			
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ING Bank	Sumitomo Mitsui FG																			
Mizuho FG	UBS																			
	UniCredit Group																			

Banking Supervisory: European Banking Union (based on Basel III regulation)

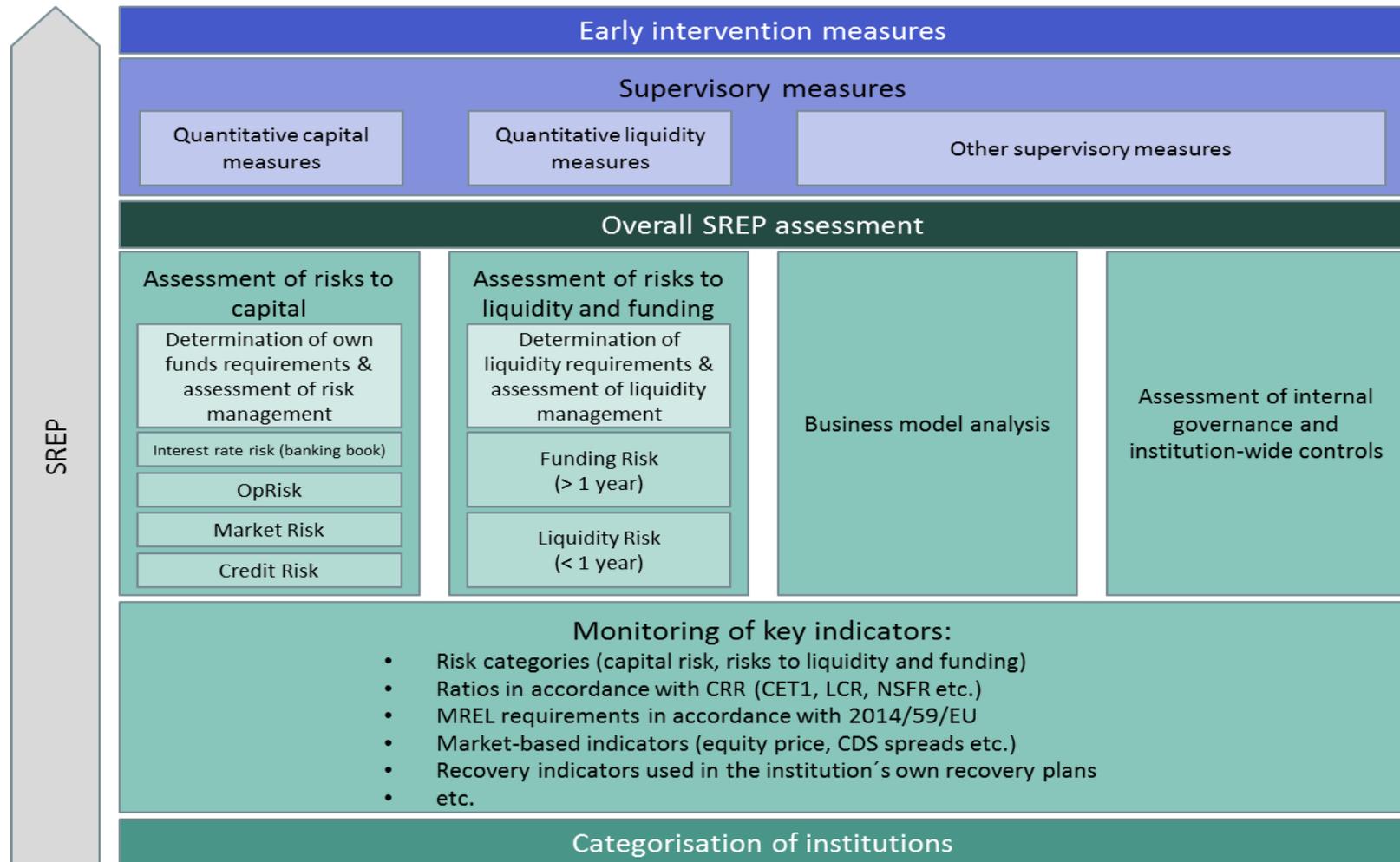


Source: NORD/LB Fixed Income & Macro Research

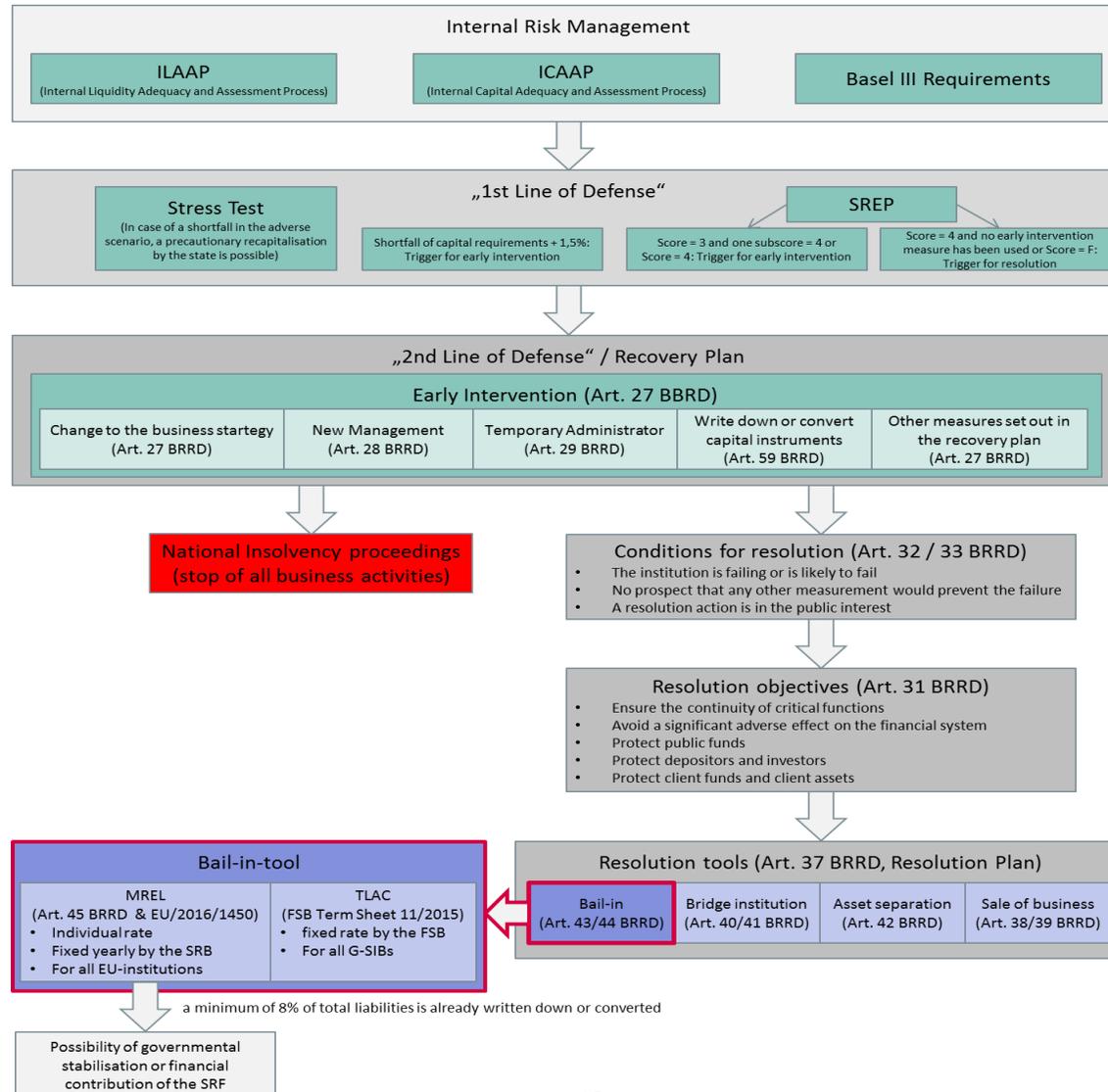
Banking Supervisory: Banking supervision in the context of the SSM



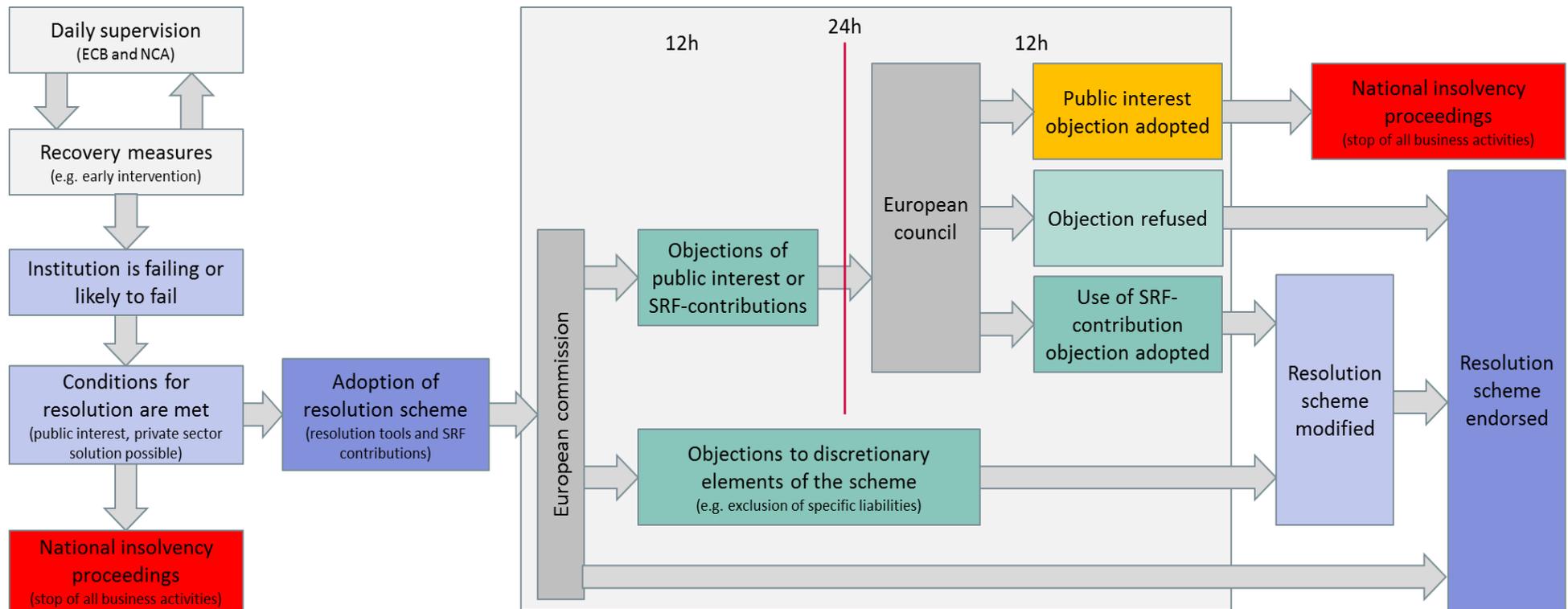
Banking Supervisory: SREP flowchart (SREP=Supervisory Review and Evaluation Process)



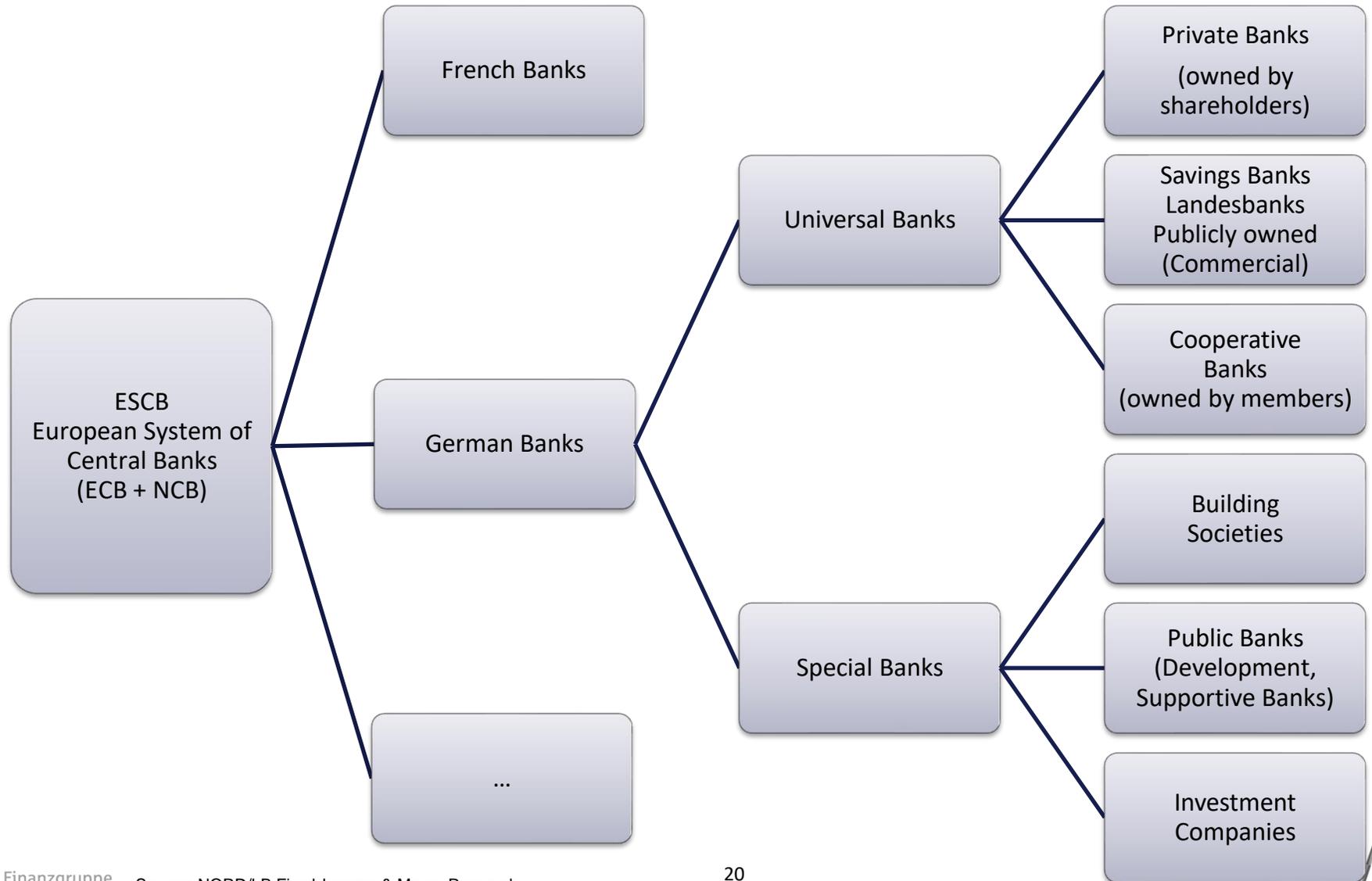
Banking Supervisory: Bank resolution process



Banking Supervisory: Banking supervision in the context of the SSM



The structure of the German banking system



The structure of the German banking system

General structure

- The German banking system is dominated by universal banks
 - G-SIB
 - D-SIB
 - R-SIB
 - nonSIB
- It is characterized by a dense network of banks (overbanked?)
- 2015: 1.960 heads per bank office (EU-15 average: 2.077)
- The concentration process is still ongoing (but not as strong as in the US or other EUR countries).

Mostly small banks

- 2018: 1.800 banks in Germany
- 2018: more than 50% of them are small or very small banks with business volumes of less than EUR 1bn

Number of banks and branches in Germany

Year	Banks	Branches	Savings Banks	Cooperative Banks	Private Banks
1957	13.359	12.974	857	2.188	338
1967	10.859	26.285	862	2.187	329
1977	6.007	37.768	622	2.343	270
1987	4.552	39.917	586	3.480	314
1990	4.180	39.750	580	3.037	329
1990 ⁺	4.719	44.345	772	3.410	350
1997	3.578	47.086	598	2.420	326
2007	2.277	39.833	446	1.232	260
2010	2.093	38.183	429	1.138	280
2015	1.960	34.045	414	1.023	271
2016	1.888	32.026	408	976	263
2017	1.823	30.126	391	917	263
2018			386	875	267

⁺ Unified Germany; Source: Deutsche Bundesbank

The structure of the German banking system

Figure 3: Business aims of banks

	Major Banks	Savings Banks	Cooperative Banks
Owners	Shareholders	Municipalities	Members
Aim	Profit Maximization	Profit Optimization + Promotion of region	Profit Optimization + Promotion of members

Source: Rudolf Faltermeier, The German Banking System – Types of Banks and Experience in the Crisis

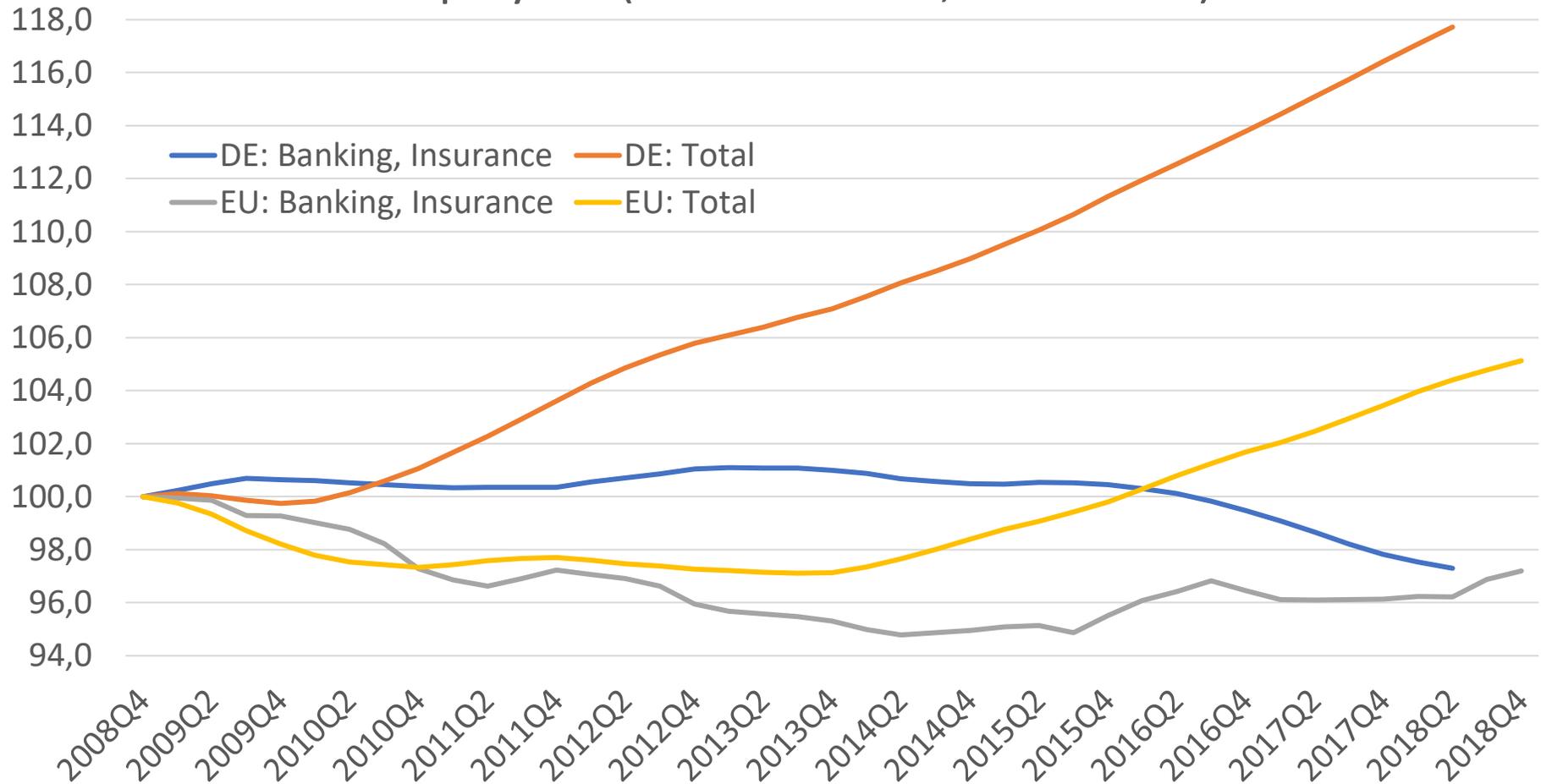
The structure of the German banking system

(market share in %)	Total Assets			Loans to non-banks			Deposits/borrowing non-banks		
	2000	2014	2018	2000	2014	2018	2000	2014	2018
Private Commercial Banks	28	39	40	26	28	32	26	36	40
Big banks	16	25	23	15	12	14	14	15	20
Regional banks and others	10	11	12	10	15	14	12	17	16
Branches of foreign banks	2	3	5	1	2	2	0	4	4
Savings banks group	35	28	26	35	36	34	39	34	32
Savings banks	16	14	17	19	22	24	26	25	26
Landesbanks	20	14	10	16	14	9	13	9	6
Cooperative Banks group	12	14	12	12	16	17	18	18	18
Other banks	25	19	22	27	20	17	17	12	9
All banks (in bn EUR)	6.148	7.853	7.824	3.479	3.901	4.156	2.261	3.339	3.769

Source: Deutsche Bundesbank

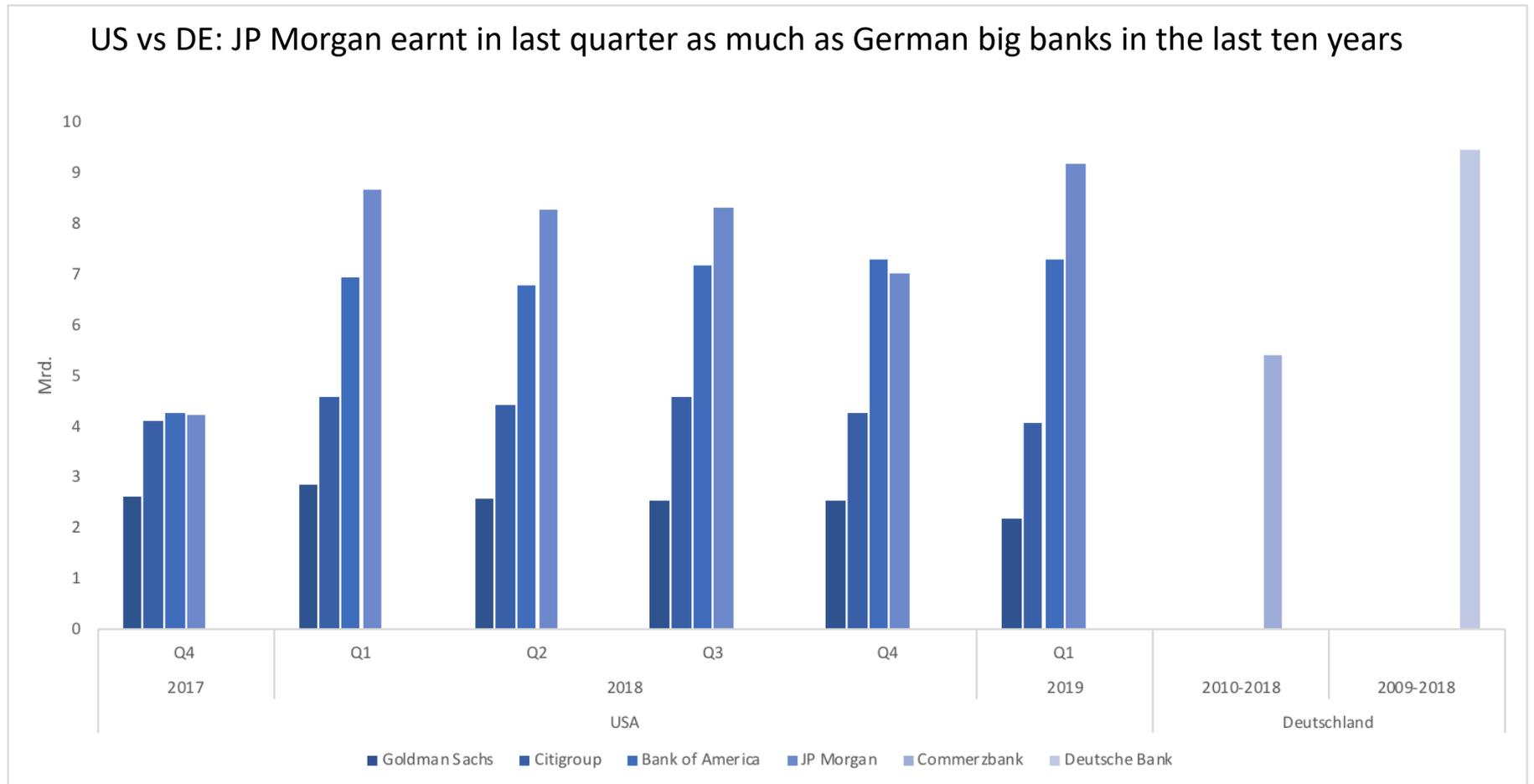
The structure of the German banking system

Employees (2008Q4 = 100, MAVG=4Q)



Source: Stat. BA, Eurostat

The structure of the German banking system



Source: <https://www.godmode-trader.de/artikel/die-banken-in-deutschland-geben-ein-trauriges-bild-ab,7269913>

Banks perspectives – chances and risks

Challenges for the banking sector

- Technology (Digitisation)
- Disintermediation (direct finance via Internet platforms, ...)
- New Player (FinTechs)
- Regulation (higher costs)
- Germany: low profitability
 - No general recapitalisation (like US, UK, FR, ...; but with the result of bigger banks today)
 - Lack of strong sector policy
 - Overbanked (?)
 - German corporate sector is net saver (= no need for net lending)

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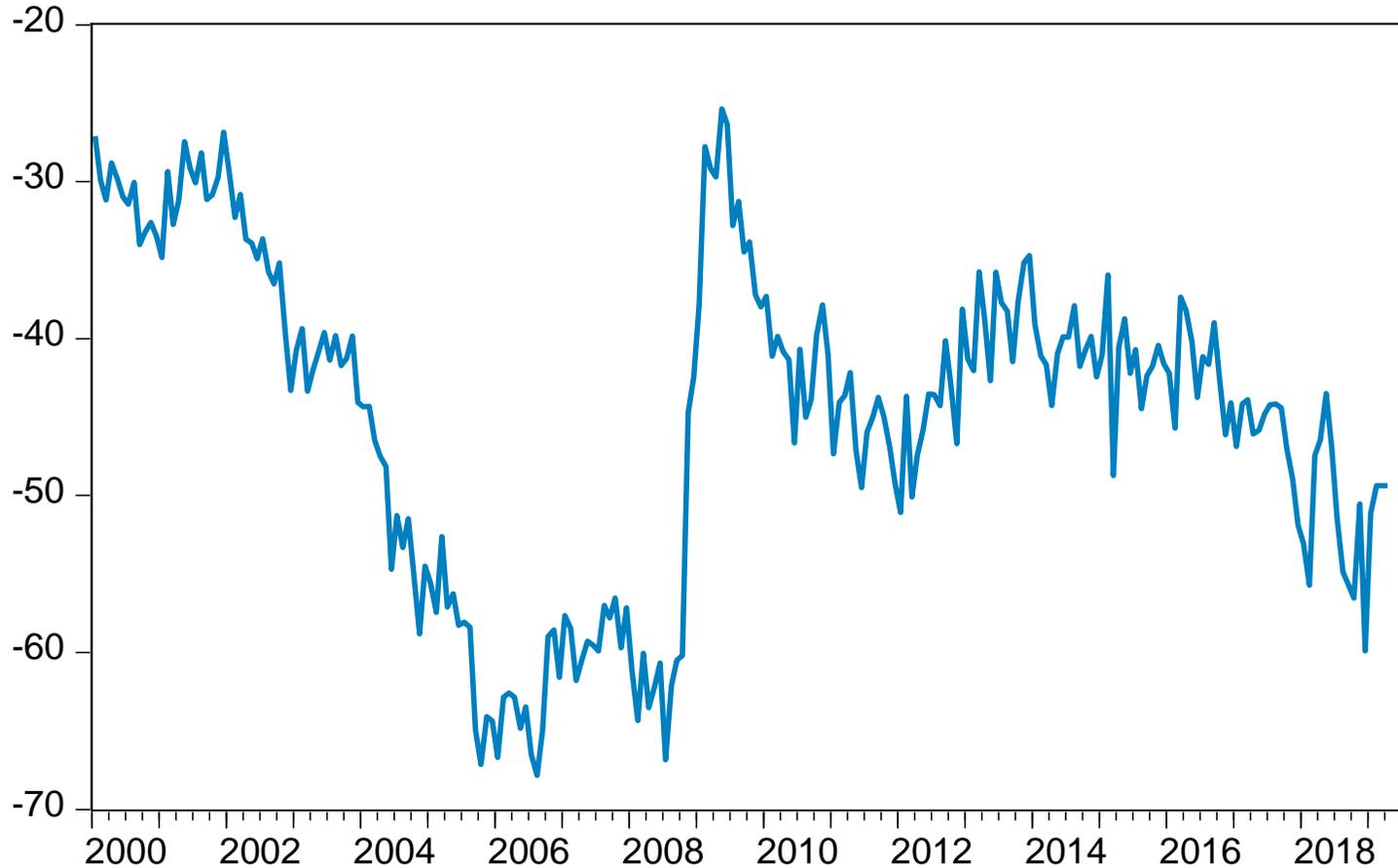
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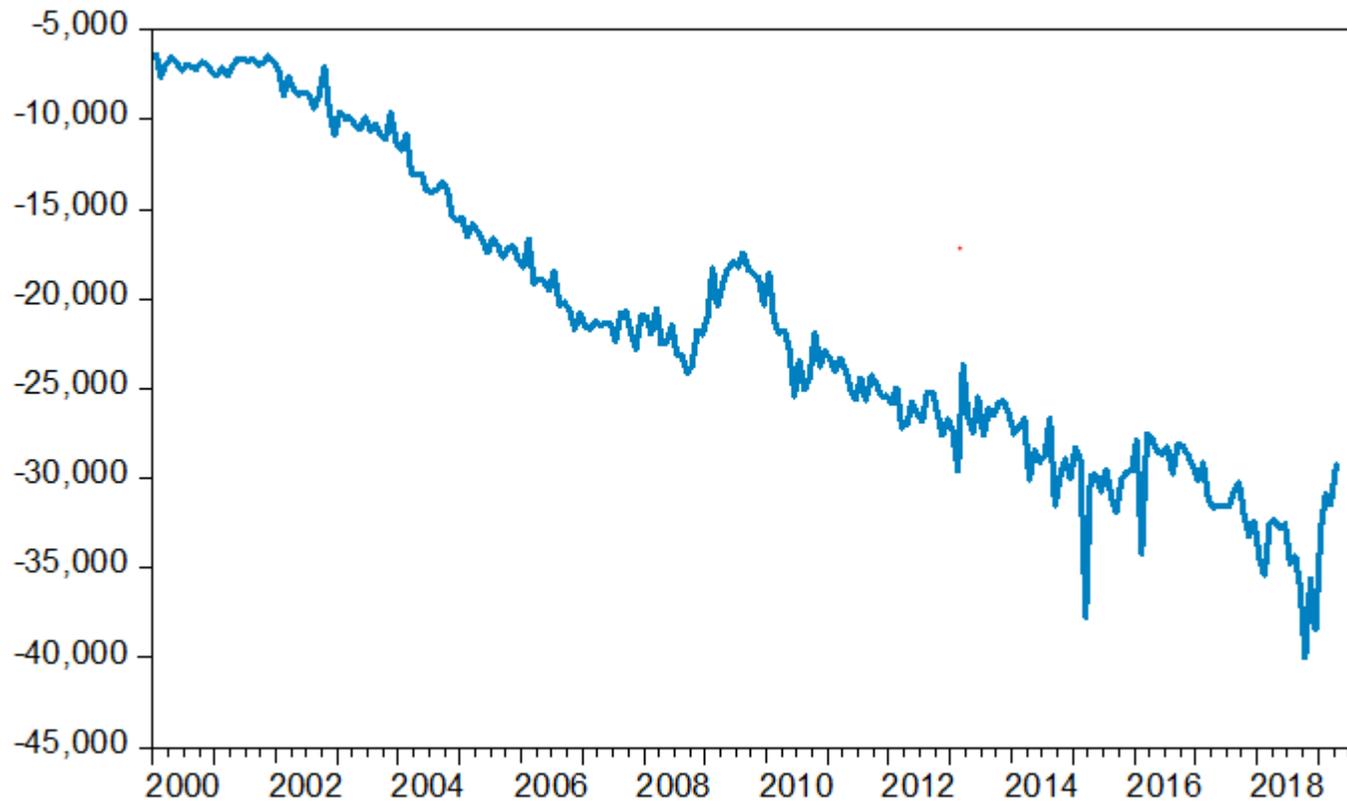
1. The US trade conflict with China

2. What happens next?

The US trade balance deficit (in billion USD) – a problem for Donald Trump



The bilateral foreign trade deficit with China (in million USD)



More imports than exports – a problem for Donald Trump

- The US trade balance deficit is increasingly seen as a problem on Capitol Hill
- According to Donald Trump's reading, domestic jobs are lost through imports
- Bilateral imbalances in particular are interpreted as a major economic threat
- Especially China, Japan and Germany are therefore targets of Donald Trump's criticism

The new US trade policy explained in one tweet



Donald J. Trump  @realDonaldTrump · May 6

The United States has been losing, for many years, 600 to 800 Billion Dollars a year on Trade. With China we lose 500 Billion Dollars. Sorry, we're not going to be doing that anymore!



16K

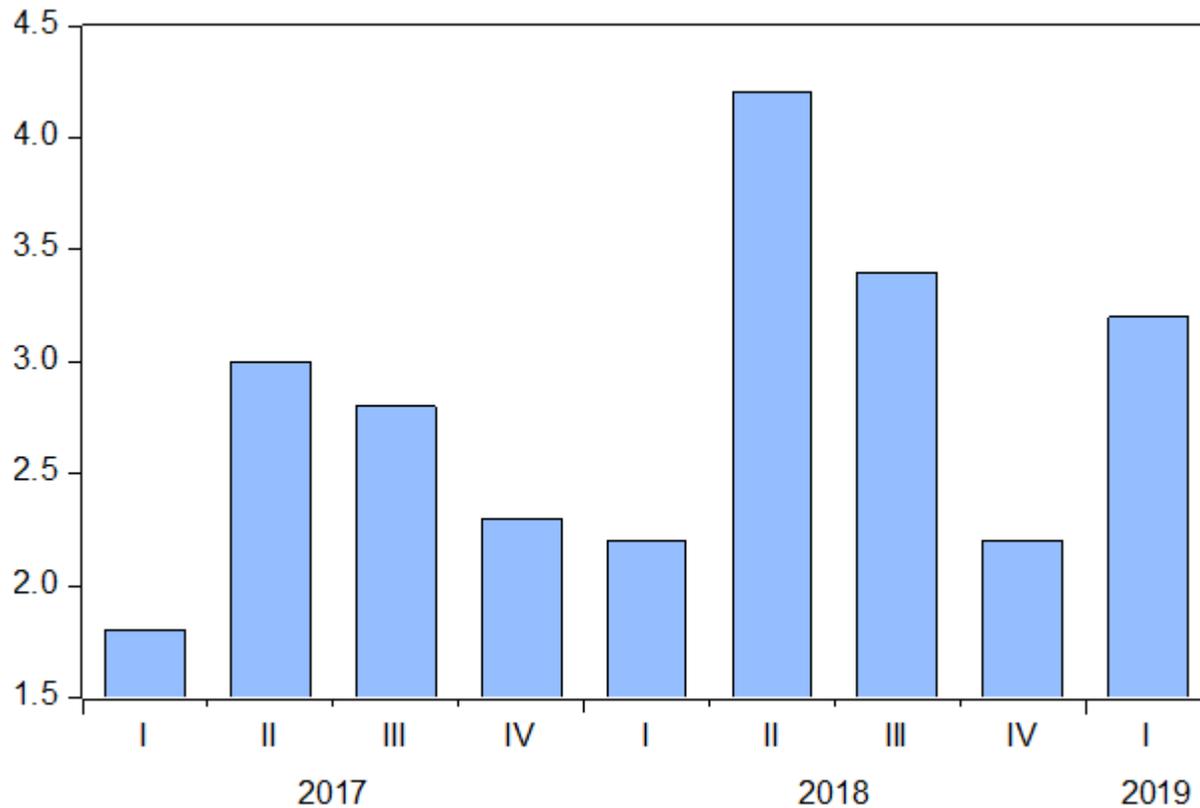


28K



121K

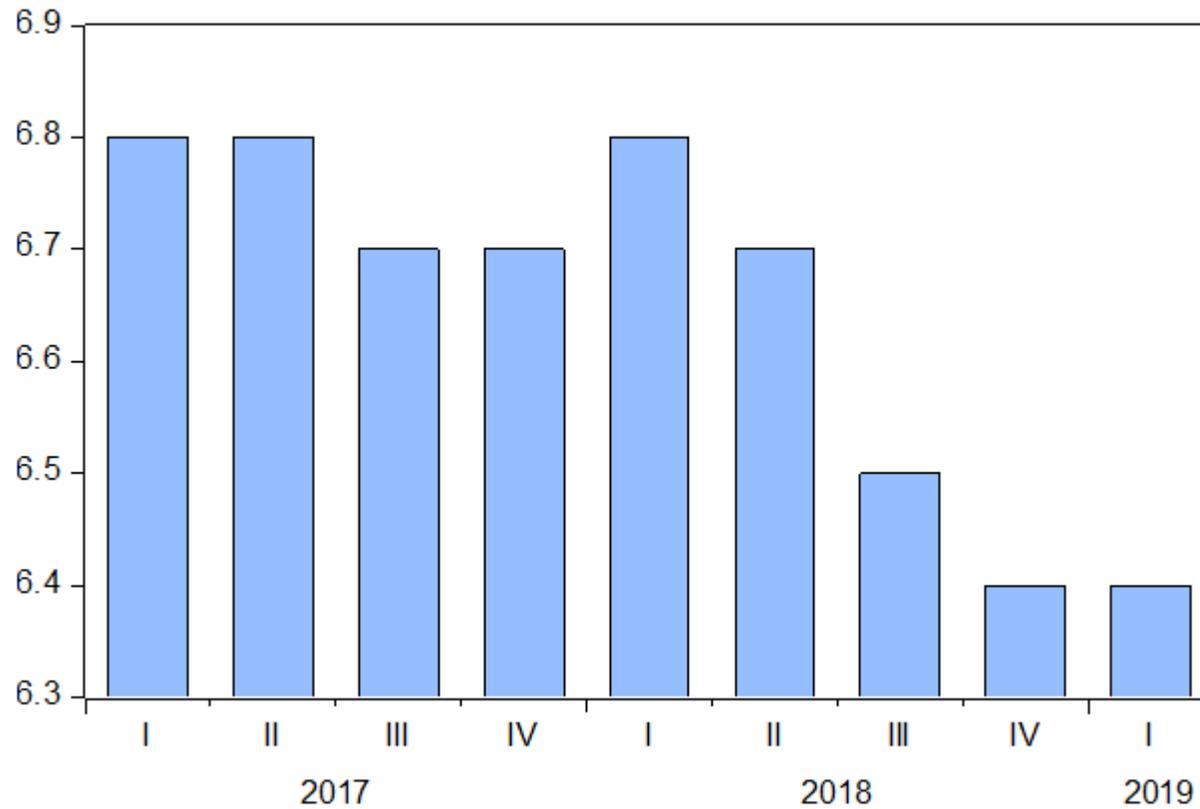
A strong US economy: A little bit more than 3% real growth (SAAR) in Q1



The US employment situation is still favourable

- US economic growth was pleasingly strong in Q1 2019
- The US consumer is still a solid pillar of the North American economy
- The sustained strength of the US economy also leaves its mark on the labor market
- According to preliminary figures, the US economy was able to create 263,000 additional jobs in April.
- The unemployment rate has dropped to only 3.6%
- Hourly earnings increased by 3.2% y/y in April
- The pleasing employment situation clearly is supporting consumer spending
- Feedback from companies also increasingly indicates a shortage of skilled workers
- The US economy will therefore no longer be able to create about 200,000 new jobs every month.

Slower growth in China – „only“ +6.4% Y/Y in Q1 2019



The economic situation in China is not that positive anymore

- Real output in China increased by 6.4% Y/Y in the Q1 2019
- Traders in financial markets had anticipated even weaker figures
- Growth in the Middle Kingdom is likely to weaken gradually
- This is exerting pressure on Beijing and could speak in favour of a settlement in the trade dispute
- But the leadership in China does not want to lose its face

Donald Trump puts China under pressure in the trade dispute

- Donald Trump recently criticized the lack of progress in negotiations with Beijing
- In two tweets, the US president announced higher punitive tariffs
- In principle, there is already a lot of agreement on both sides
- Discussions seem to be faltering on some rather complicated questions of detail
- The Chinese subsidy policy is a problem
- Protection of intellectual property rights also remains in Washington's focus
- After pleasing US economic data, Donald Trump believes to be in a better position
- He sees himself in a position of strength and wants to bring about regulations that are advantageous for the USA
- The risk of the talks failing has now increased again
- Washington and Beijing, however, are likely to continue to be interested in a deal

Two tweets that can make a difference



Agenda

1. The US trade conflict with China

2. What happens next?

Peking and Washington still are interested in a compromise

- Deputy Prime Minister Liu He led the Chinese delegation on its trip to Washington
- Peking hat mittlerweile auf die US-Zölle geantwortet
- The threats by Donald Trumps are primarily to be seen as a more aggressive US negotiation strategy
- Washington wants "the deal" - but only on sufficiently attractive terms
- The risk of a failure of the talks has certainly increased recently (Huawei...)
- All Western nations could benefit from US measures to level the playing field with China
- This would in particular be true if Beijing were to improve the way property rights are handled in China
- An agreement in principle on remains possible
- The G-20 summit in Japan could be the place where a deal is going to be made
- The problems are complex - perhaps "only" a ceasefire will initially be reached here

Washingtons new trade policy – what about Tokyo and Brussels?

- After the "deal" with China there should be further trade disputes with Japan and the EU
- Controversial negotiations have to be expected in both cases
- Nevertheless, agreements with Tokyo and Brussels are possible - not to say even probable
- Japan will be quicker to find a compromise with the US
- Mexico is now also moving back into the focus of Donald Trump
- His new trade policy is used to force the US southern neighbor to block illegal immigration
- This could be a major problem for USMCA

More Tweets: Japan ...



Donald J. Trump  @realDonaldTrump · 6. Mai

Just spoke to Prime Minister Abe of Japan concerning North Korea and Trade.
Very good conversation!

... & Mexico



Donald J. Trump  @realDonaldTrump · 11 Std.

On June 10th, the United States will impose a 5% Tariff on all goods coming into our Country from Mexico, until such time as illegal migrants coming through Mexico, and into our Country, STOP. The Tariff will gradually increase until the Illegal Immigration problem is remedied,..



Donald J. Trump  @realDonaldTrump · 11 Std.

....at which time the Tariffs will be removed. Details from the White House to follow.



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Financial, economic or/and political crisis

- Economy as a social system is much more complicated than the economic textbooks suggest
- Good analysis starts with the right question! But what is the right question?
- Trump is an expression of the problem, not the problem! But what is the problem?
- **Our analysis, our questions and the resulting answers could be too simple:**

“We are currently experiencing the ‘birth pangs’ of a literally new world that functions differently and has a different basic order than the old one. The democratic systems are already strained to the breaking point. This is less due to the political actors than to the braking effect of the sometimes monstrous systems. What so far has been seen almost exclusively as a crisis of the global financial system is rather a progressive paralysis of the organizational system of societies. Their structures and leadership are increasingly overwhelmed by the complexity and speed of global change.”

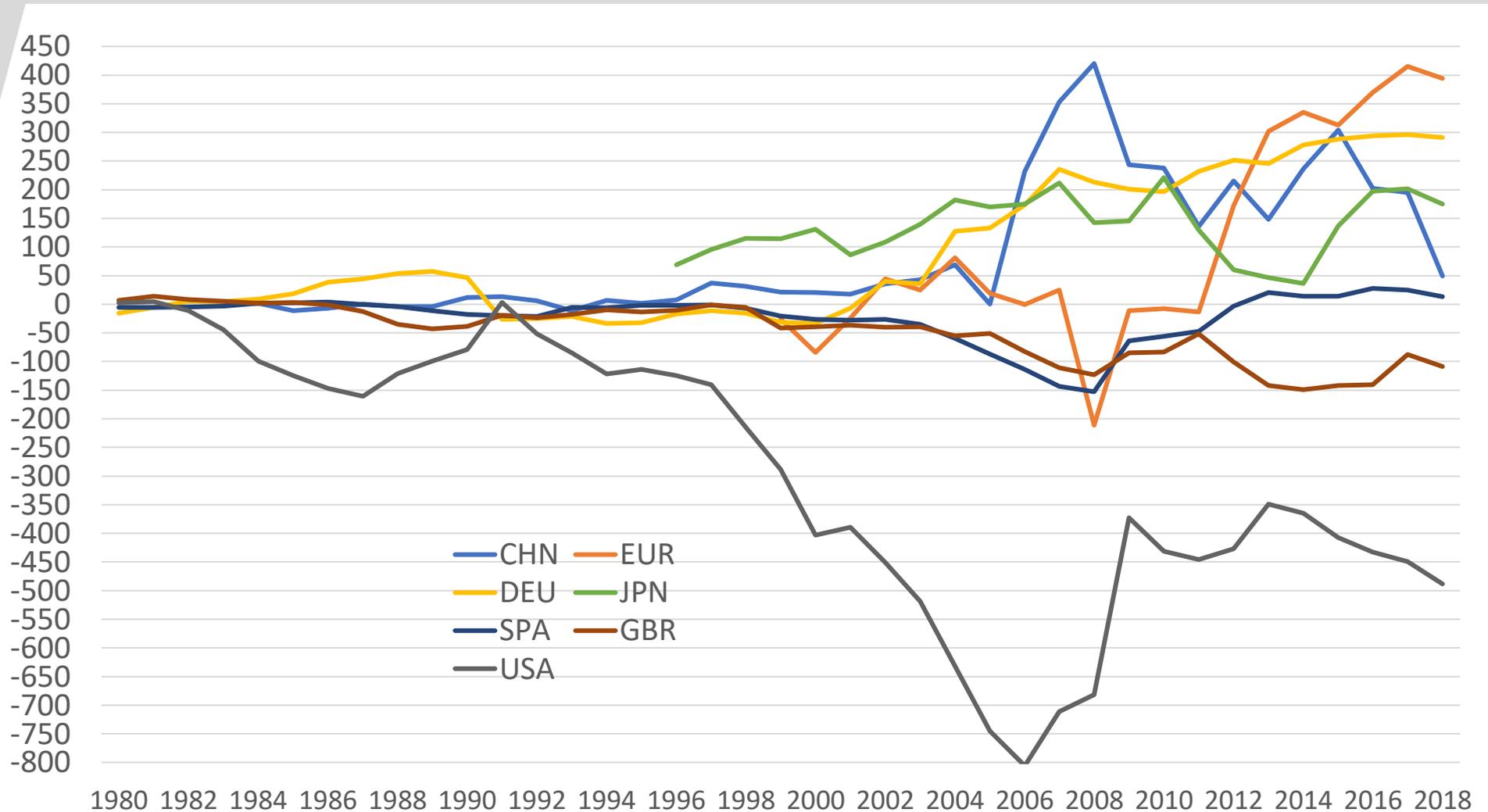
Fredmund M. Malik (*1944, swiss strategy advisor), Auf ins Ungewisse, Die Zeit, 15.05.2014, S. 26 (translated with www.DeepL.com)

„Wir erleben derzeit wieder die »Geburtswehen« einer buchstäblich neuen Welt, die anders funktioniert und eine andere Grundordnung hat als die alte. Die demokratischen Systeme sind schon bis an die Zerreißgrenze strapaziert. Das liegt weniger an den politischen Akteuren als an der Bremswirkung der teils monströsen Systeme. Was bisher fast ausschließlich als Krise des globalen Finanzsystems gesehen wird, ist eher eine fortschreitende Lähmung des Organisationssystems der Gesellschaften. Ihre Strukturen und ihre Führung sind von der Komplexität und Geschwindigkeit des globalen Wandels immer deutlicher überfordert.“

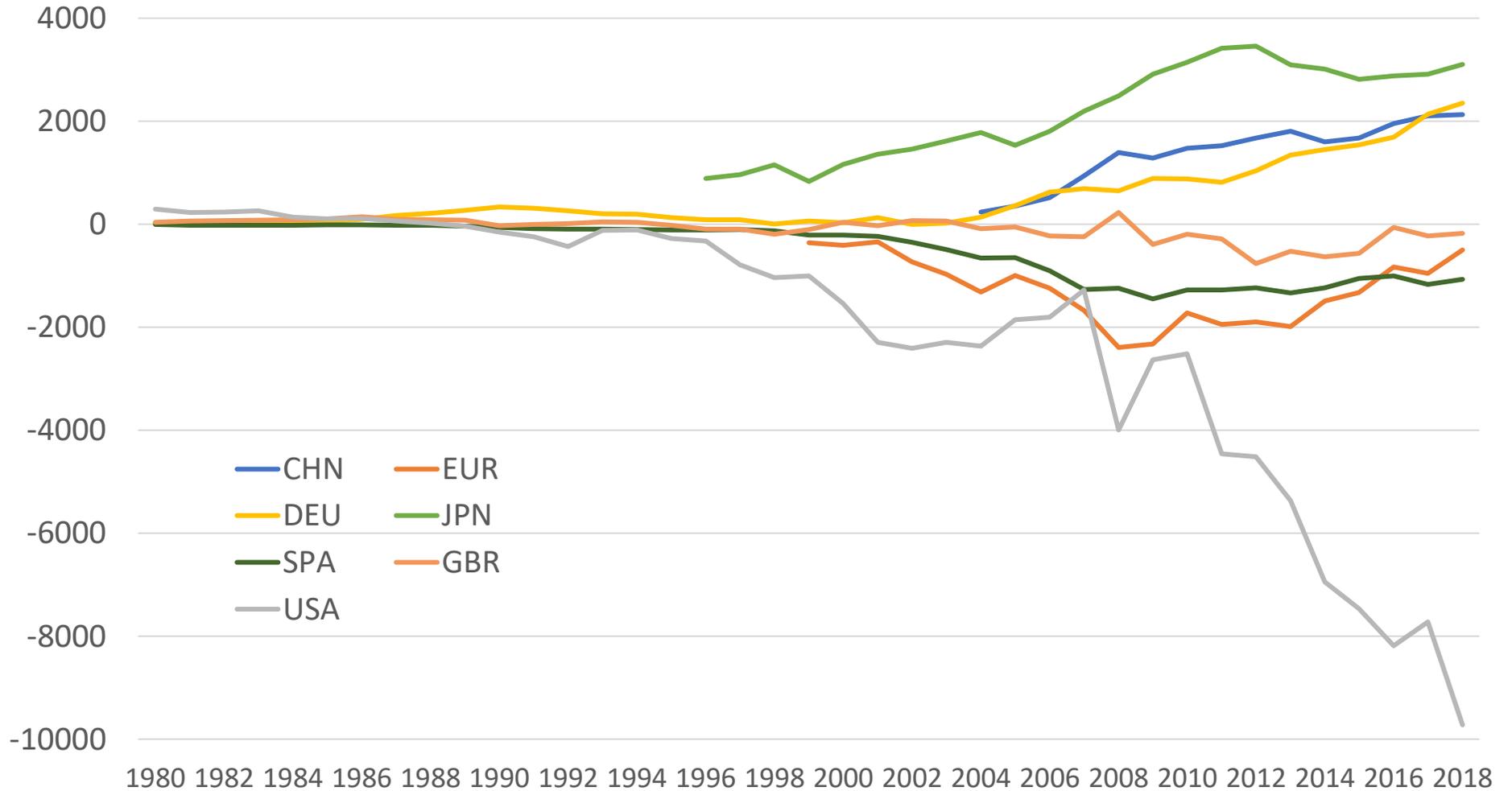
*“I think that most capitalists don’t know how to divide the economic pie well and most socialists don’t know how to grow it well, yet we are now at a juncture in which either
a) people of different ideological inclinations will work together to skillfully reengineer the system so that the pie is both divided and grown well or
b) we will have great conflict and some form of revolution that will hurt most everyone and will shrink the pie.”*

Ray Dalio (*1949, US Hedge Fund Manager), Why and How Capitalism Needs to Be Reformed, published on LinkedIn, 20190404)

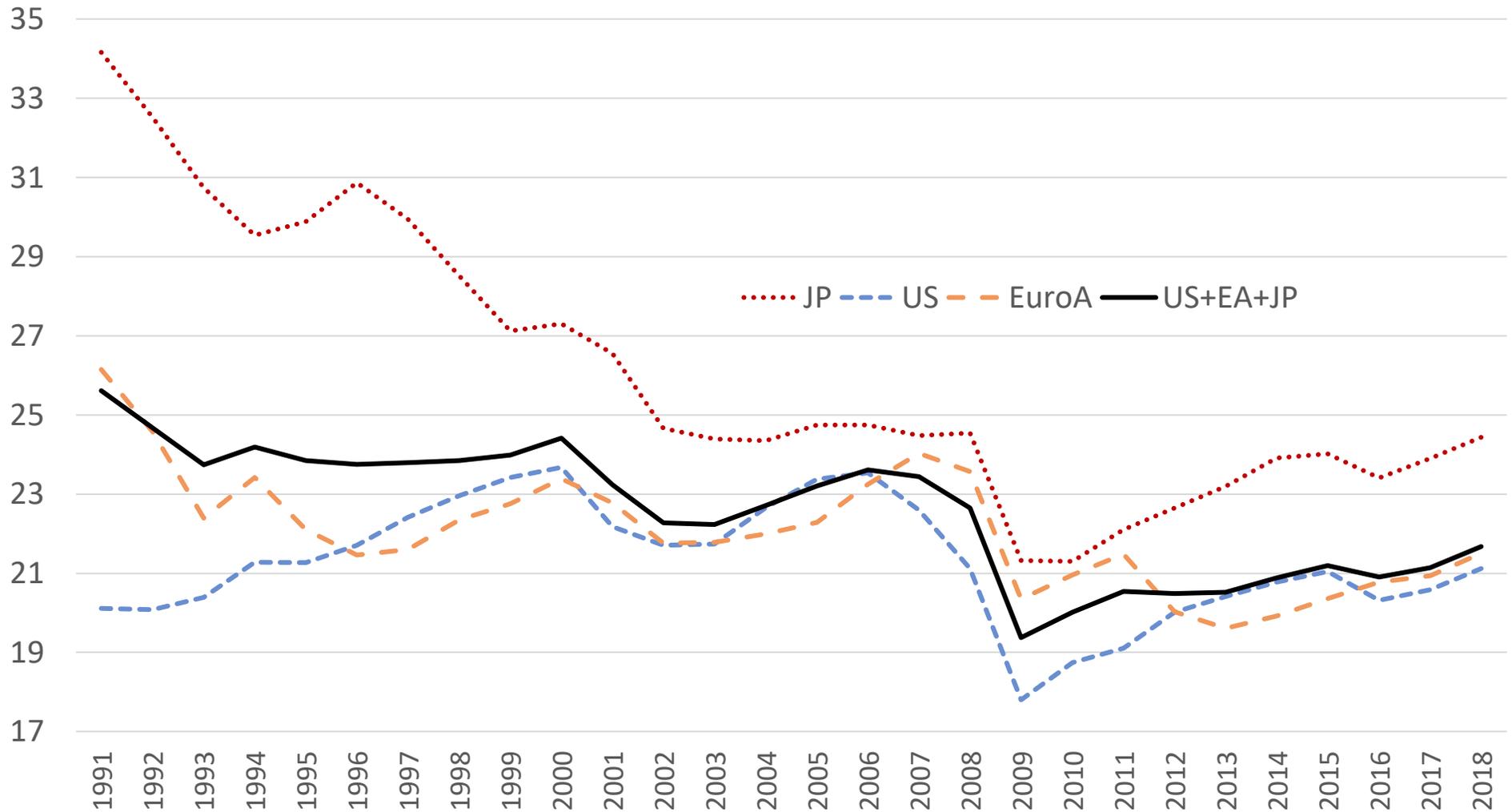
No trace of equilibrium – Current Account Deficits (in bn USD, Source: IWF)



No trace of equilibrium – Net Investment Position (in bn USD, Source: IWF)

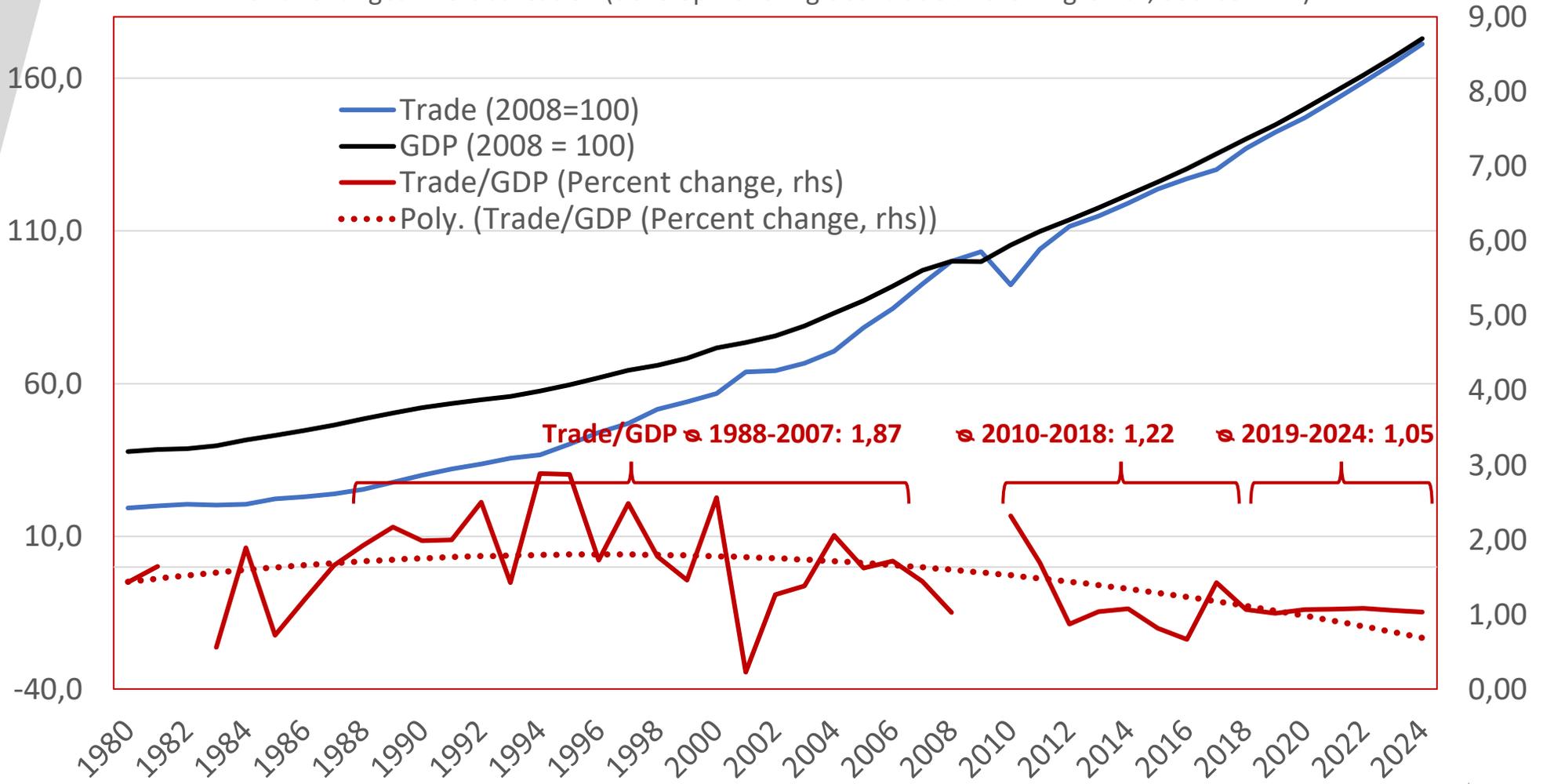


Weak investments international (gross fixed capital formation, as a % of GDP, Source: IMF)

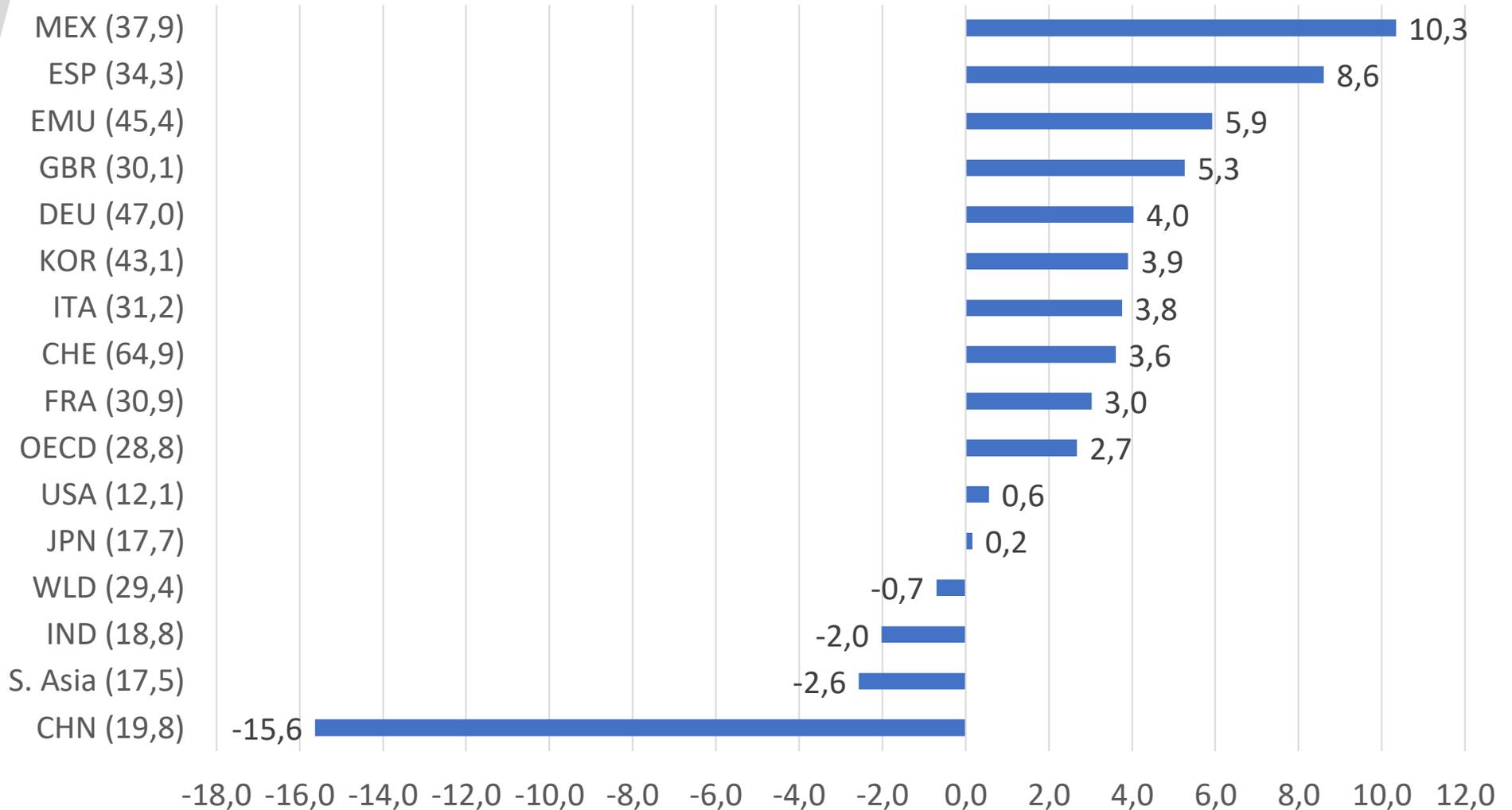


Globalisation: structural change?

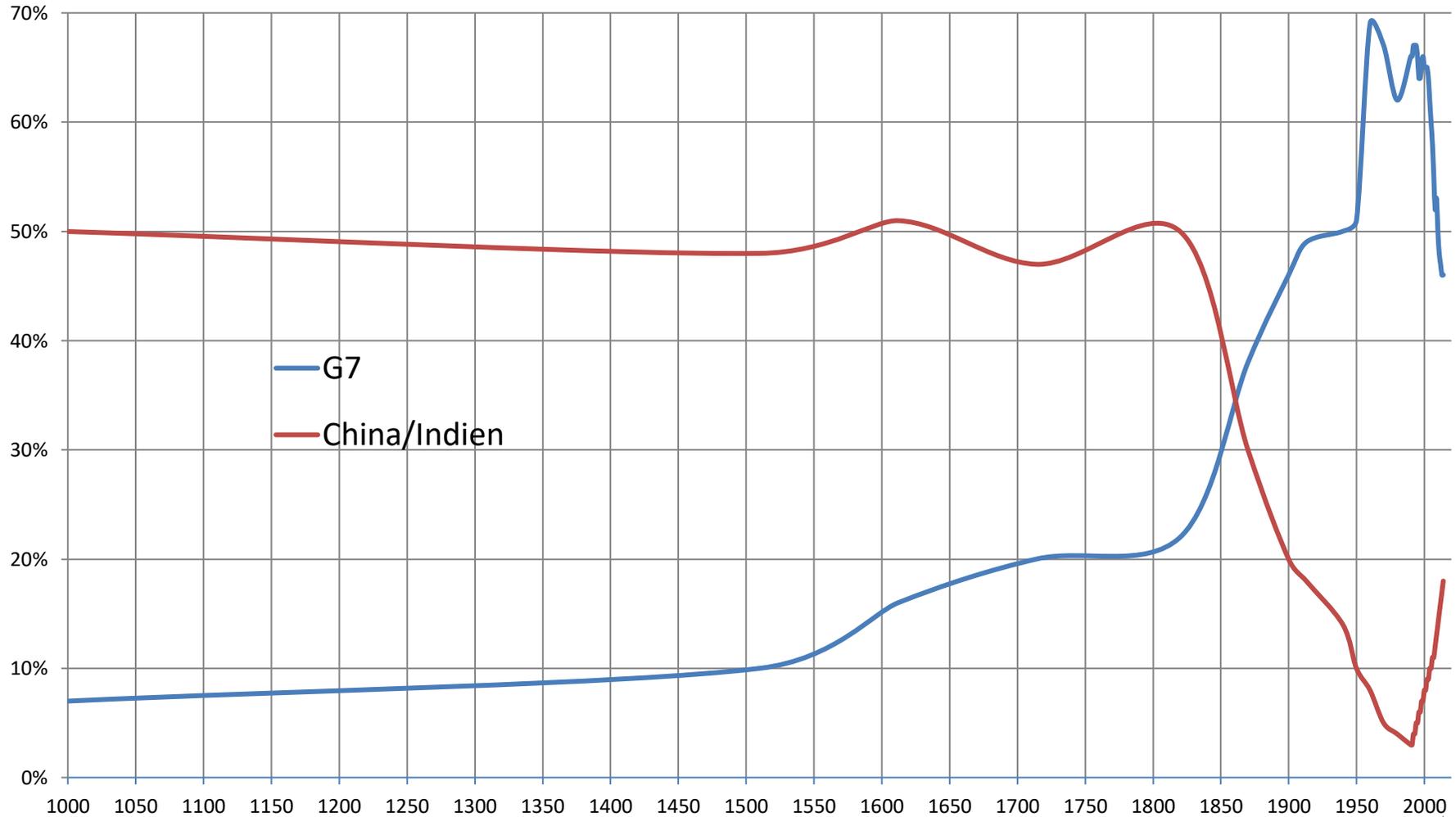
World: Changes in Globalisation (development in global trade and GDP growth, Source: IMF)



Globalisation: Structural Change? – Export ratios 2017 vs. 2007 (differences in percentage points, in brackets: exports as a % of GDP)



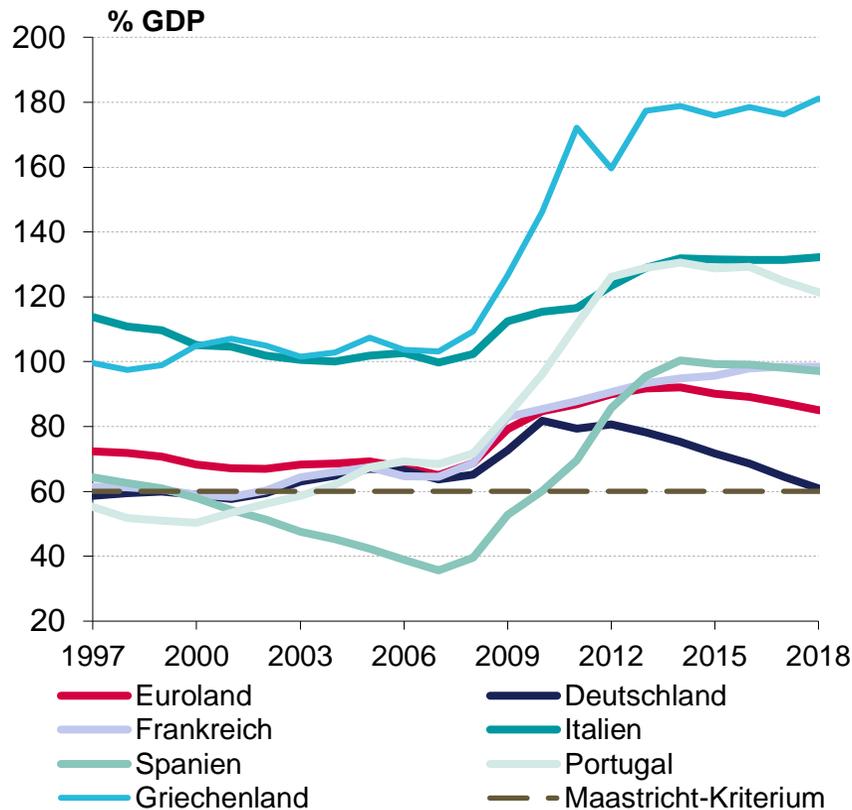
Globalisation: structural change? – Shares in World GDP (%)



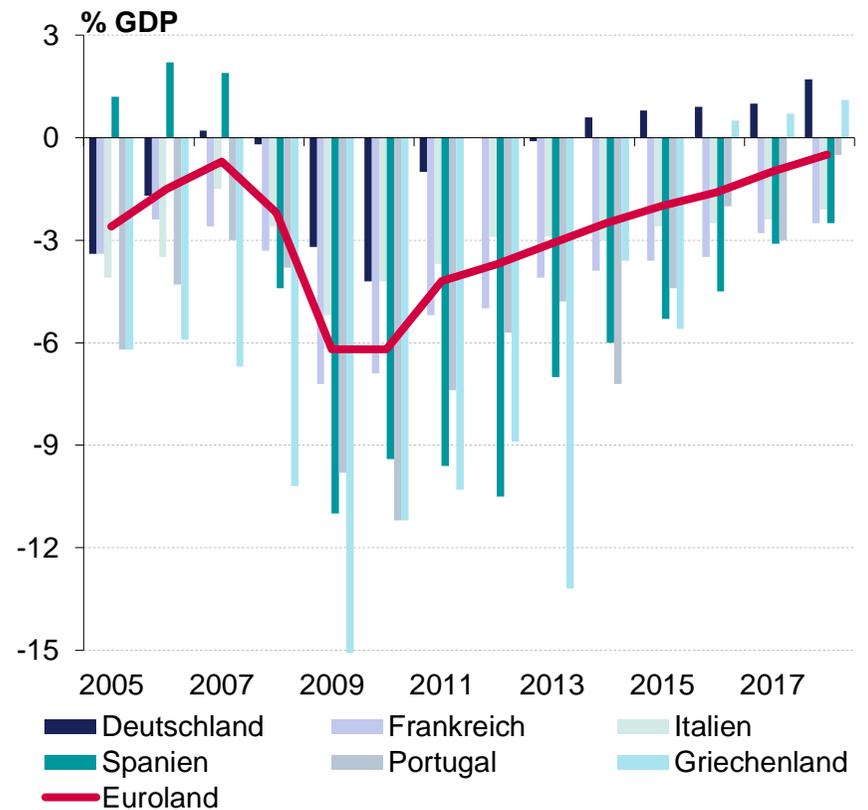
Quelle: Richard Baldwin (2016), The Great Convergence, mit Daten von Weltbank und Maddison-project data

Euroland: Uneven reduction in public debt, Germany as an exception

Public debt (as a percentage of GDP)

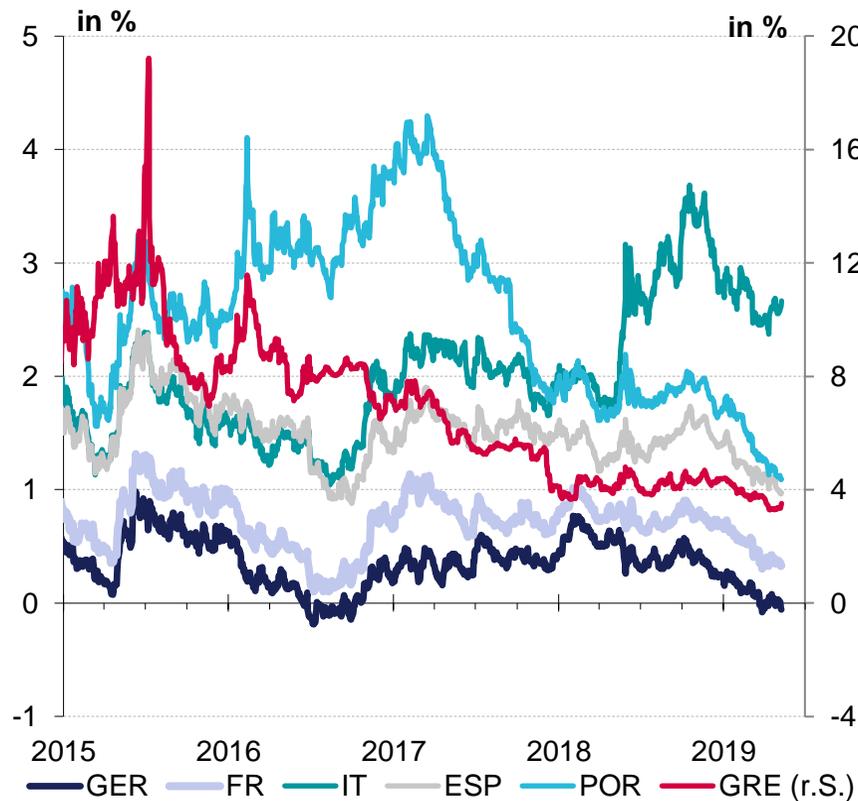


Annual public deficit (as a percentage of GDP)

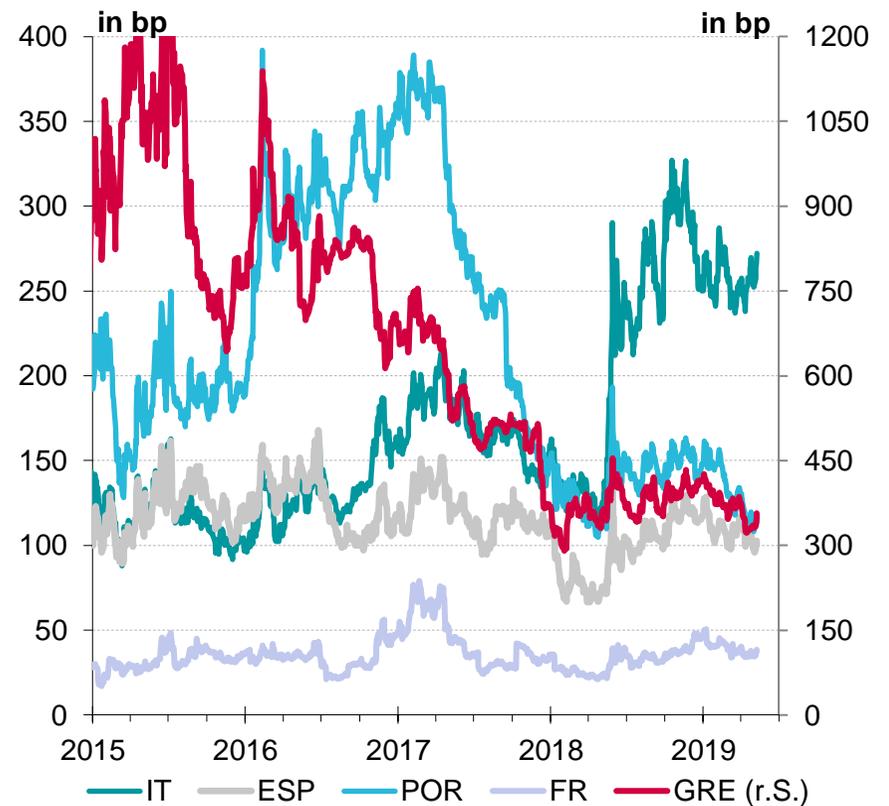


Government Bond Yields: Italy in focus but no contagion risk; Global political risks (trade wars, military conflicts (Ukraine, Iran, ...)) depress the interest rate level

Government bonds (10Y) Eurozone

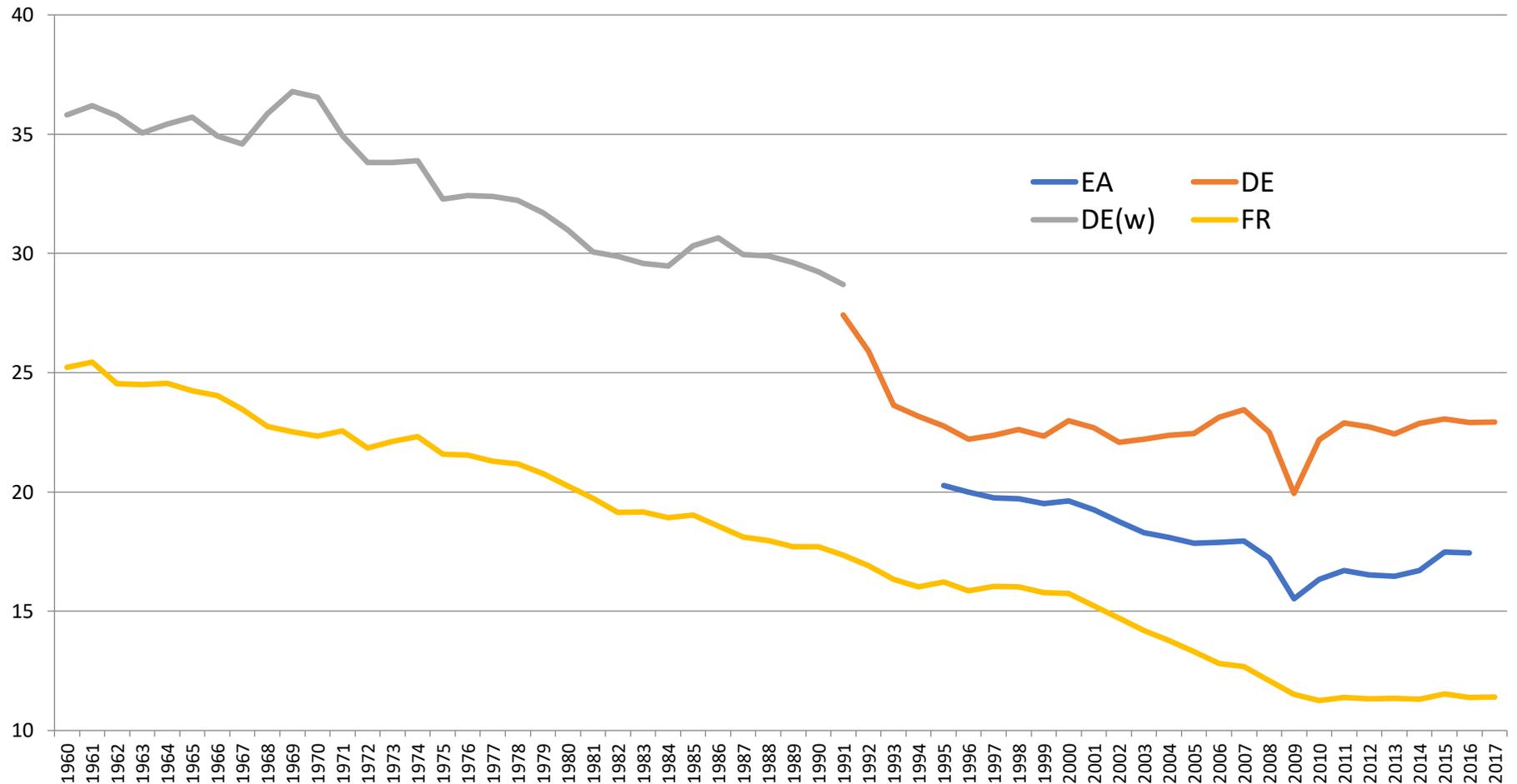


Spreads to German Bunds (10Y)



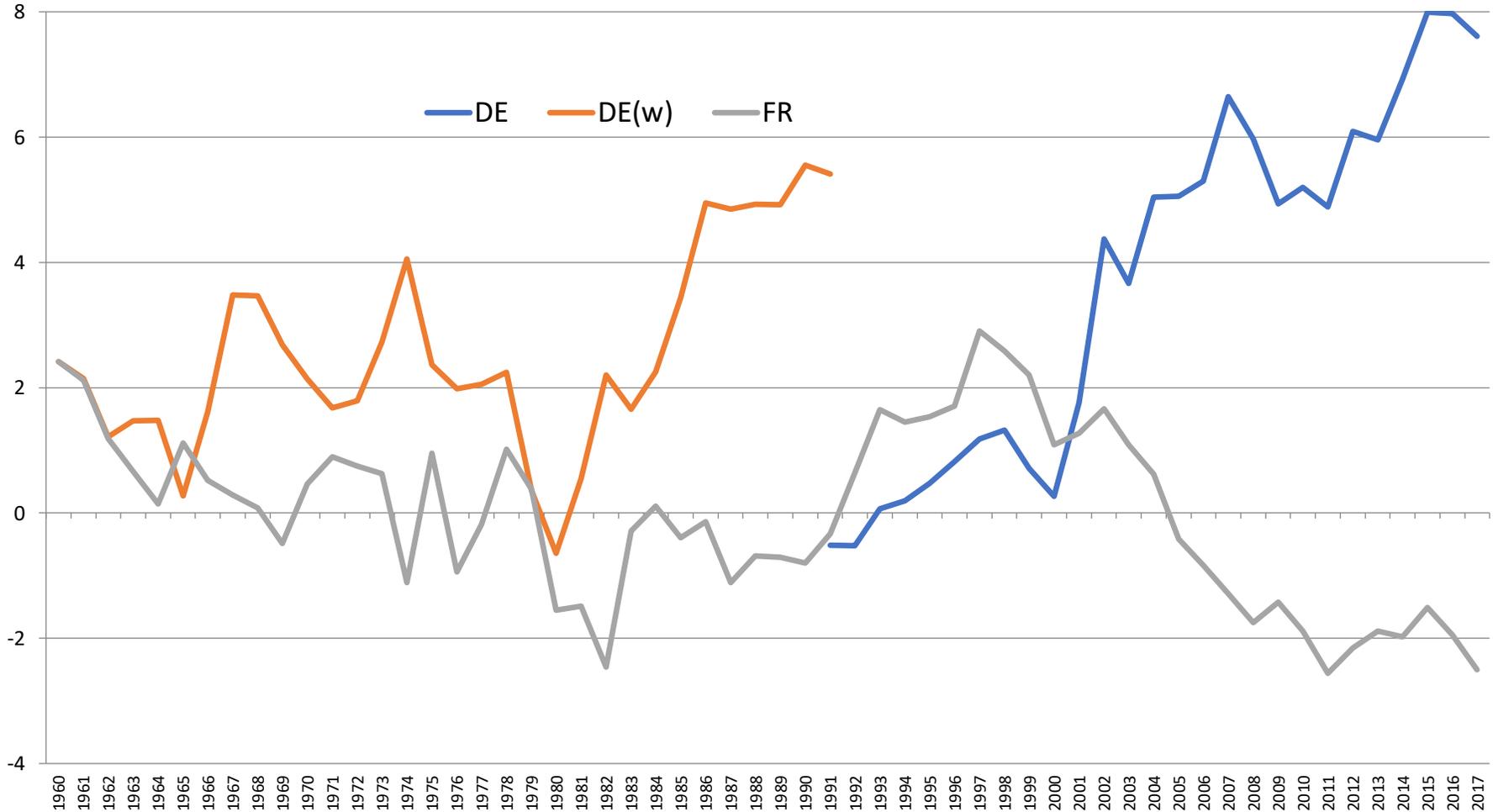
Comparison of growth models in Germany and France

Manufacturing Industry (Share of total gross value added in %)



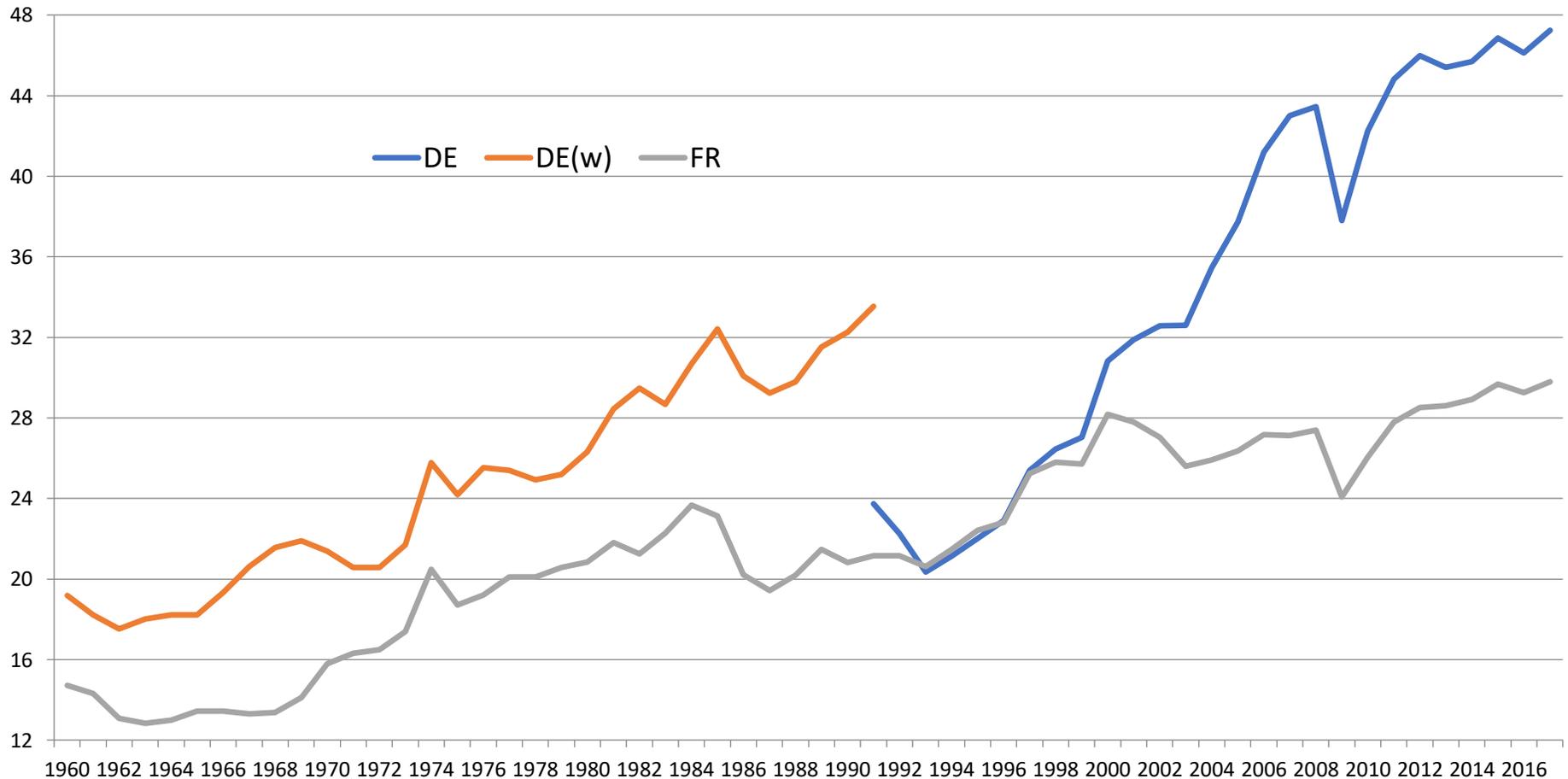
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Current Account (as a percentage of GDP)



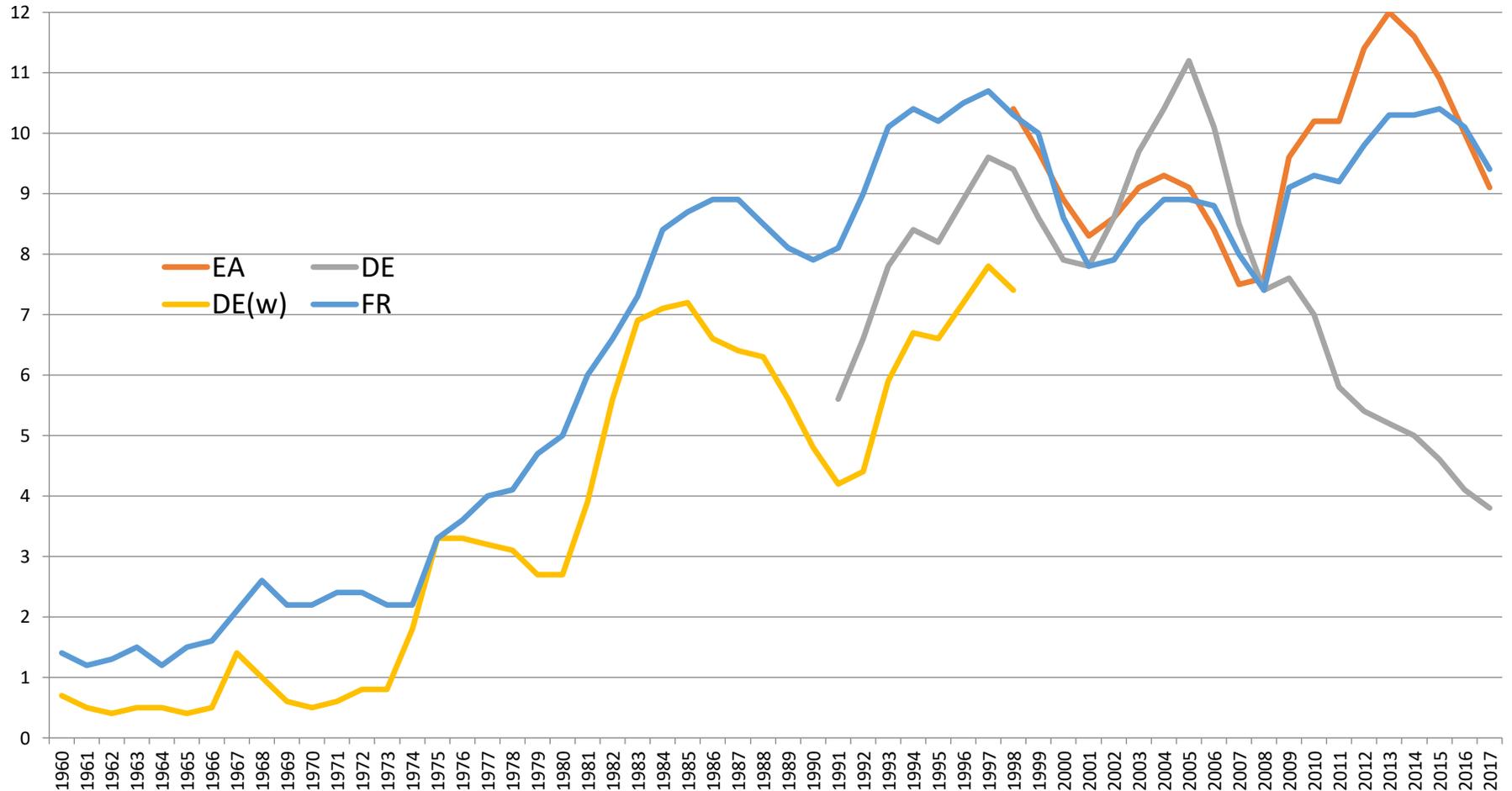
Comparison of growth models in Germany and France

Export ratios (Exports of goods and services, as a percentage of GDP, nominal)



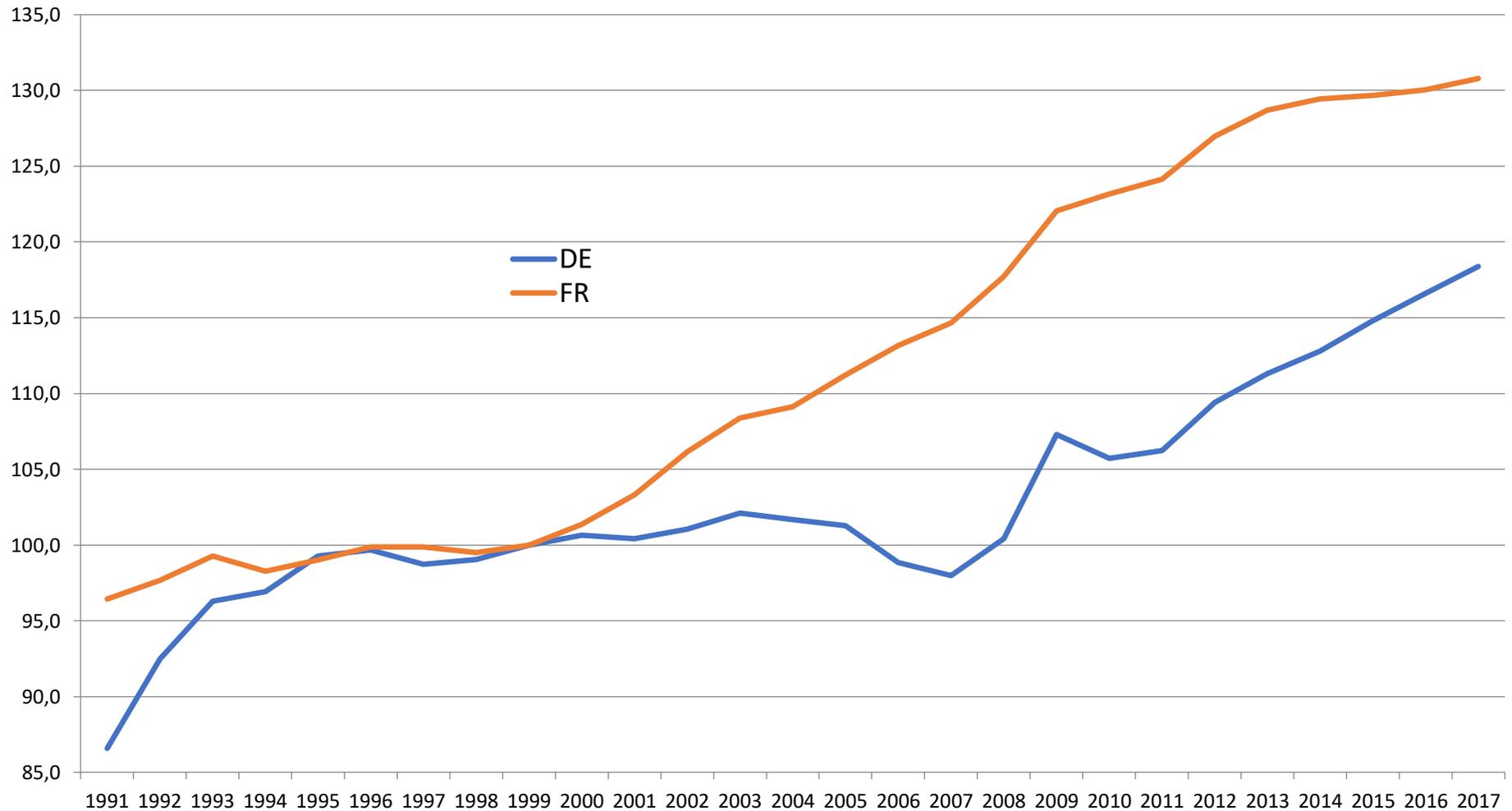
Comparison of growth models in Germany and France

Unemployment (ILO definition, as a percentage of labour force)



Comparison of growth models in Germany and France

Unit Labour Costs (nominal, hourly, 1999 =100)



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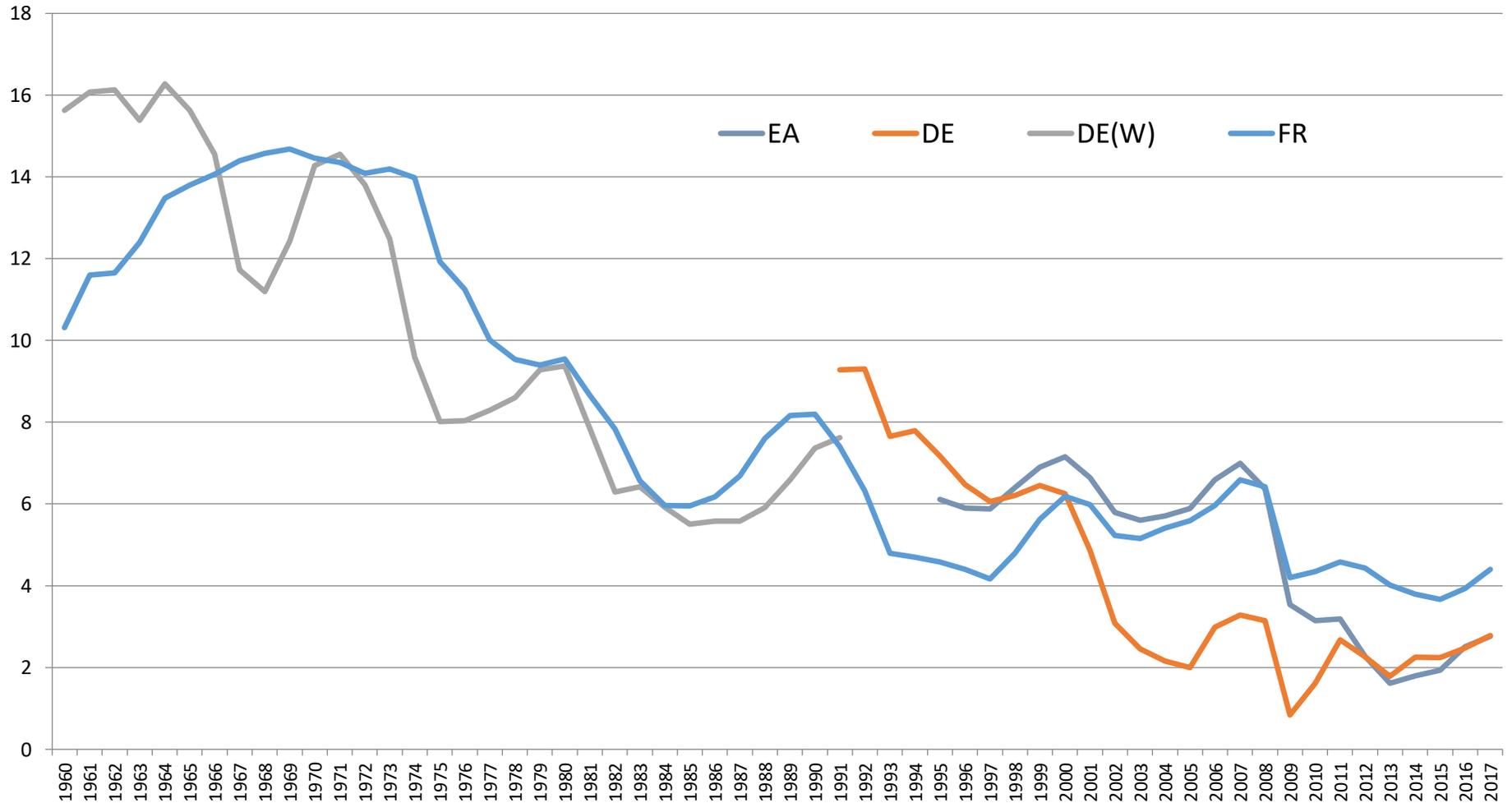
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Thank you very much for your attention!
... Questions?

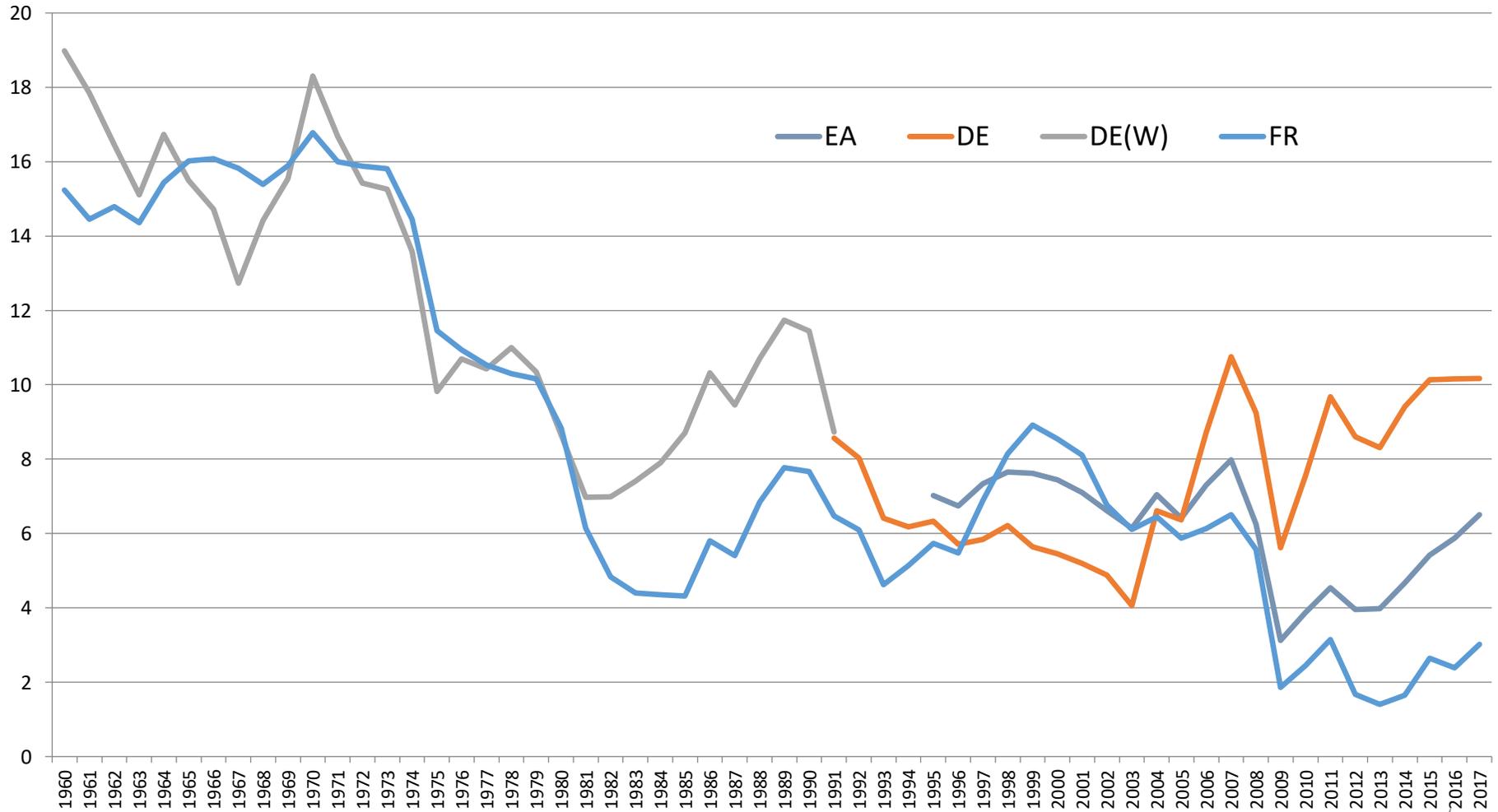
Comparison of growth models in Germany and France

Net fixed capital formation (nominal, as a percentage of GDP)



Comparison of growth models in Germany and France

Savings (national, net, as a percentage of GDP)



Comparison of growth models in Germany and France

Excess of savings (Net savings minus Net fixed capital formation, as a percentage of GDP)

