The sovereign-bank-corporate nexus: virtuous or vicious?

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Broad-based government support in response to rising corporate vulnerabilities

Composite indicator of corporate vulnerabilities and underlying driving factors
Q1 2000 – Q3 2020, z-scores

Loan guarantees and remaining envelopes relative to sovereign debt in 2020 in selected euro area countries
Percentages of GDP and outstanding sovereign debt

Sources: Eurostat and ECB calculations.

Sources: National authorities and ECB calculations.
A virtuous circle between sovereigns, banks and corporates

Monetary policy

Favourable financing conditions in sovereign bond markets
Stable banks supporting the economic recovery
Lower corporate insolvencies and NPLs
Favourable financing conditions and ample access to credit

Sovereigns

Sovereigns

Banks

Corporates

Fiscal policy

Direct transfers and guarantee schemes
Higher tax revenues and growth after the pandemic
Rising sovereign and corporate debt going along with a tightening of credit standards

Indebtedness of the general government and the non-financial corporate sector across the euro area
Q4 2019, Q3 2020, percentages of GDP

Sources: ECB and ECB calculations.

Bank lending to euro area non-financial corporations and bank credit standards
Annual percentage changes, weighted index

Sources: ECB (BSI statistics, Bank Lending Survey) and ECB calculations.
Persistent links between sovereigns and banks

Euro area bank exposures to domestic sovereign debt securities relative to total assets *Jan. 2007-Sep. 2020, observed; end-2022, potential; percentage of total assets*

Issuer ratings of euro area sovereigns and banks in the euro area
*Rating buckets*

Source: ECB (BSI and GFS statistics, and macroeconomic projections).
Note: The dots are based on a simple projection of potential increase based on the average share of domestic sovereign debt securities held by euro area banks from March to September 2020 and public debt projected from 2020 to 2022.

Sources: DBRS, Fitch Ratings, Moody’s, Standard & Poor’s and ECB calculations.
Note: The bubble size indicates the combined debt of sovereigns and banks (debt securities issued) in a country as a share of the euro area total.
Continued fiscal and monetary support for as long as necessary can avoid a vicious circle between sovereigns, banks and corporates.
Divergence among euro area countries due to unresolved legacy issues and asymmetric effects of the pandemic

Banks’ domestic government bond holdings and corporate NPL ratios across the euro area

**x-axis:** % of total assets, **y-axis:** % of total corporate loans

Non-financial corporate profits by sovereign indebtedness

**Q3 2014 – Q3 2020, index Q4 2019 = 100**

Sources: Bloomberg and ECB.
Notes: White bubbles indicate negative values. The red horizontal and vertical lines indicate sample medians.
Thank you very much for your attention!