



EUROPEAN CENTRAL BANK

EUROSYSTEM

# November 2020

## Financial Stability Review

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Press conference

25 November 2020



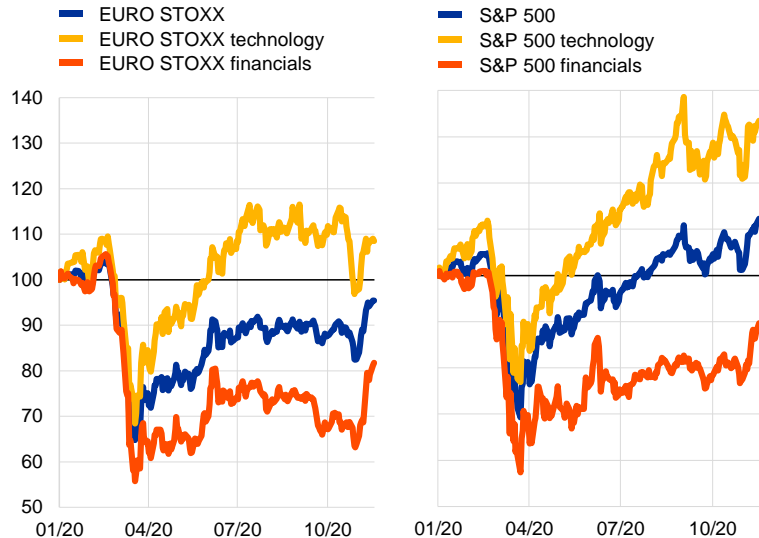
# November 2020 FSR – Key messages

- Dispersed (K-shaped) impact on countries and sectors could lead to concentration of risks in some areas
- Policy measures have addressed liquidity challenges and protected financial stability – as time goes on, solvency issues are becoming more prominent
- Bank profitability prospects are very weak, and losses could materialise with a lag relative to the economic recovery

# Dispersed economic and financial market impact of the pandemic

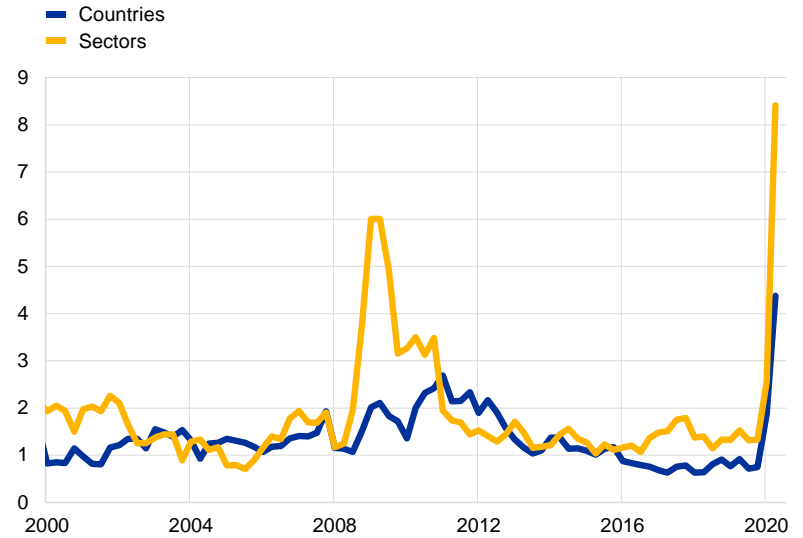
- Rebound of the equity market has been differentiated across countries and sectors
- Economic recovery from lows in Q2 has been highly dispersed across sectors and countries

## Developments in the EURO STOXX and S&P 500 indices and selected sectoral constituents (1 Jan.-17 Nov. 2020; indices: 1 Jan. 2020 = 100)



Sources: Bloomberg Finance L.P. and ECB calculations.

## Dispersion of value-added growth across euro area countries and sectors (Q1 2000-Q2 2020, percentage points)

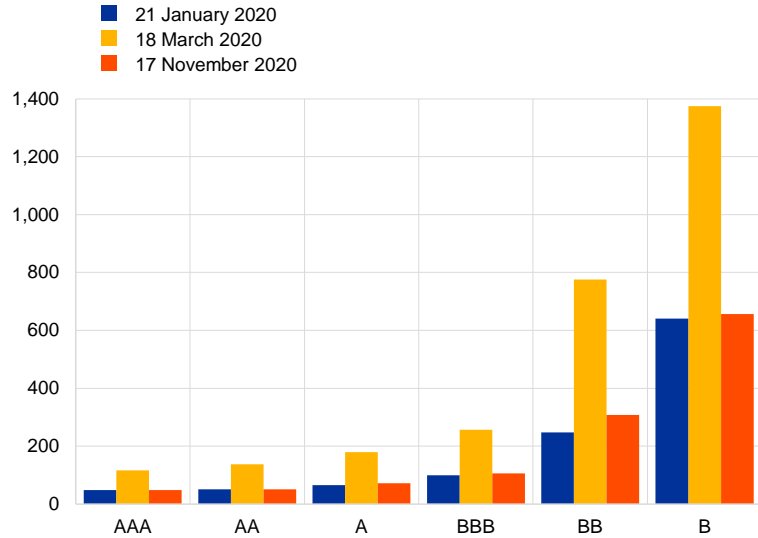


Sources: Eurostat and ECB calculations.

# Corporate vulnerabilities increased, but spreads are low

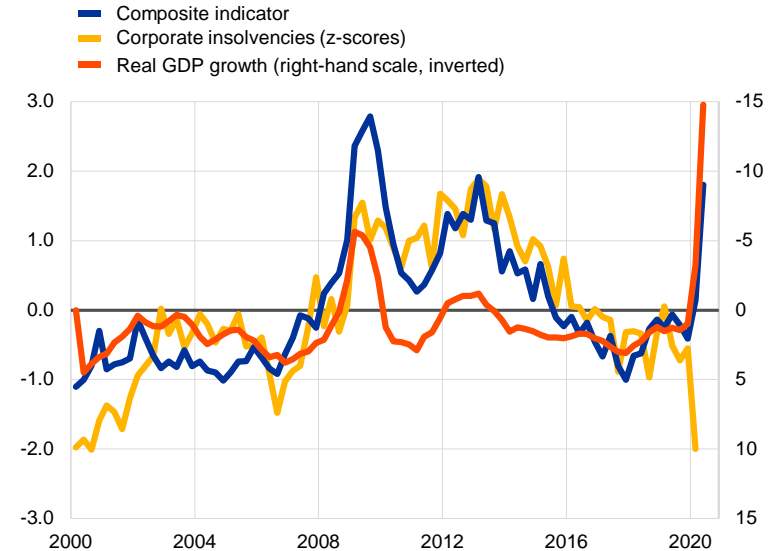
- Corporate spreads have declined to near pre-COVID-19 levels despite weakened earnings...
- ...which may reflect the mitigating impact of policy support on defaults and insolvencies

## Corporate bond spread by rating category (basis points and ratings)



Sources: IHS Markit and ECB calculations.

## Composite corporate vulnerability indicator, corporate insolvencies and real GDP growth for the euro area (z-scores and percentages)

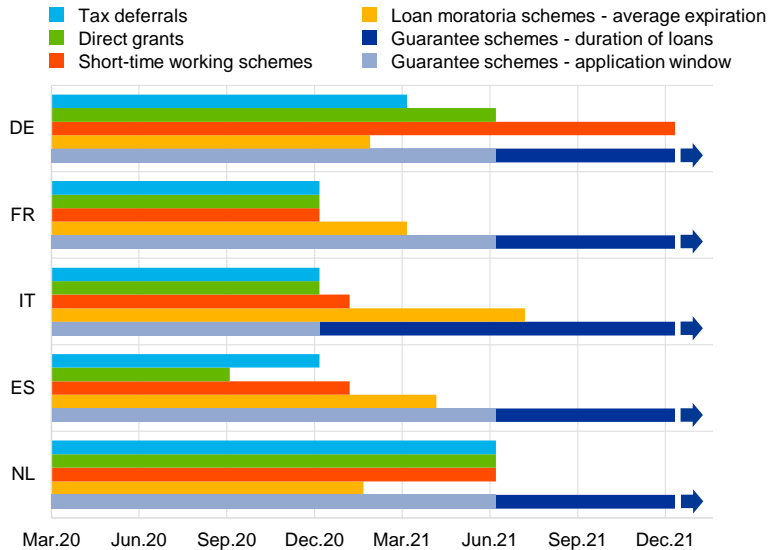


Sources: Eurostat, ECB, IHS Markit and ECB calculations.

# Risks from reducing policy support too early or too late

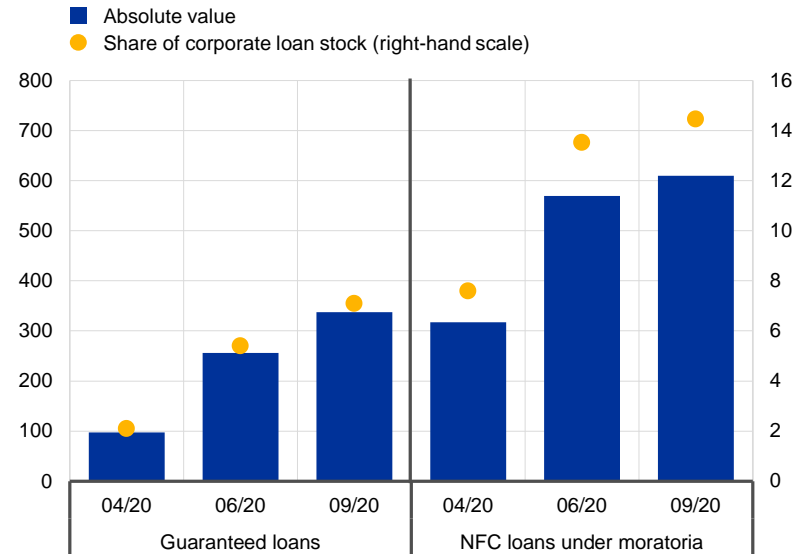
- Euro area non-financial firms and households are cushioned by various government support measures
- But risks arise either from a premature end to measures or from prolonged support

## Timeline of the phasing-out of different policies (dates)



Sources: National authorities and EBA notifications.  
 Notes: Cut-off date: 10 November 2020. Guaranteed loans mature at the latest: in mid-2031 in DE, in mid-2027 in FR and NL, at end-2030 in IT and in mid-2029 in ES.

## Euro area banks' corporate loan books affected by guarantees and moratoria (€ billions, percentages)

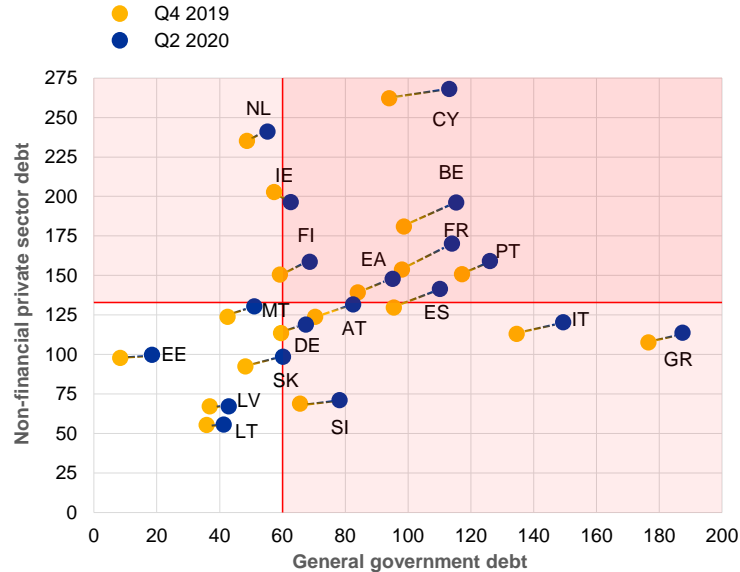


Sources: EBA, national authorities and ECB calculations.

# Medium-term risk from potential sovereign-corporate-bank nexus

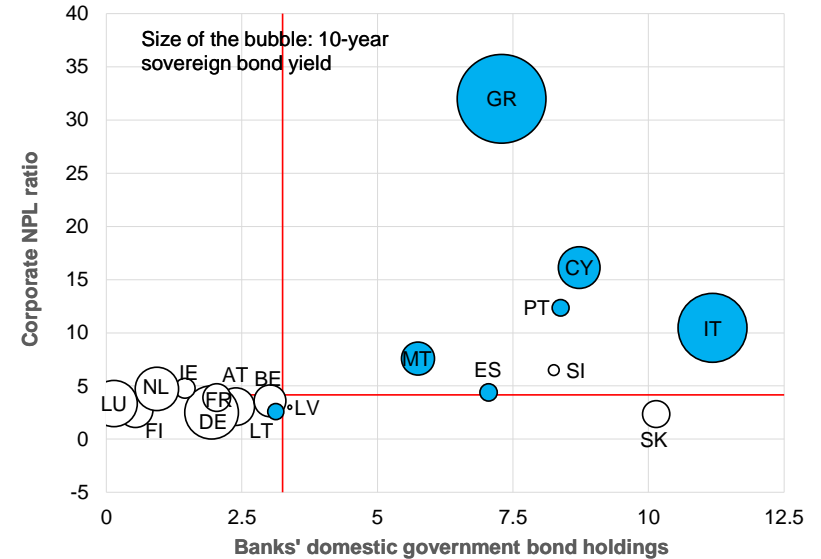
- Debt sustainability concerns are on the rise amid rising debt burdens
- Banks and sovereigns alike are exposed to pandemic-related risk faced by euro area firms

## Indebtedness of the general government and non-financial private sector across the euro area (Q4 2019 vs. Q2 2020, percentage of GDP)



Sources: ECB and ECB calculations.

## Banks' domestic government bond holdings and corporate NPL ratios across the euro area (percentage of total assets and of total corporate loans)

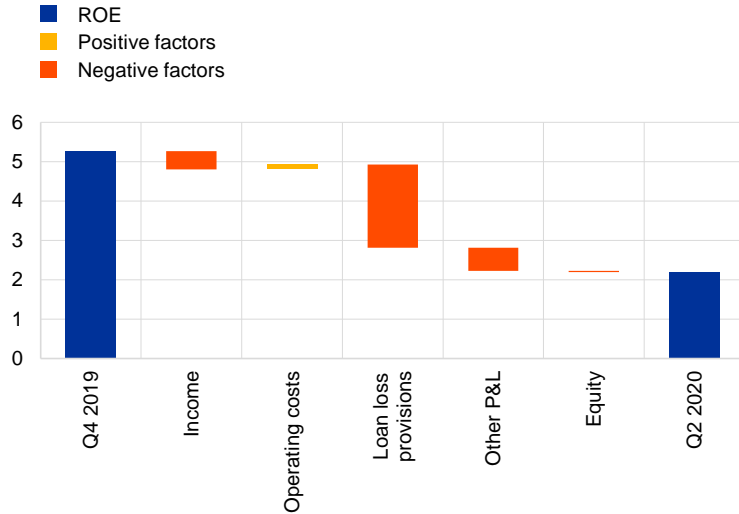


Sources: ECB (BSI statistics and supervisory data), Bloomberg and Reuters.

# Even weaker bank profitability prospects

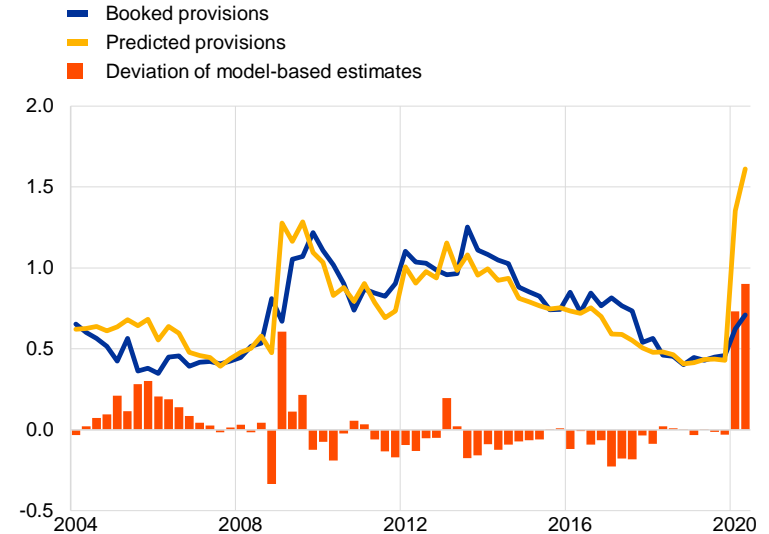
- In Q2 bank profitability fell as loan loss provisions rose and income came under pressure
- For some banks, uncertainty about the adequacy of provisions suggests more losses could need to be recognised

## Euro area banks' ROE and drivers of change (Q4 2019, Q2 2020, percentage point contributions)



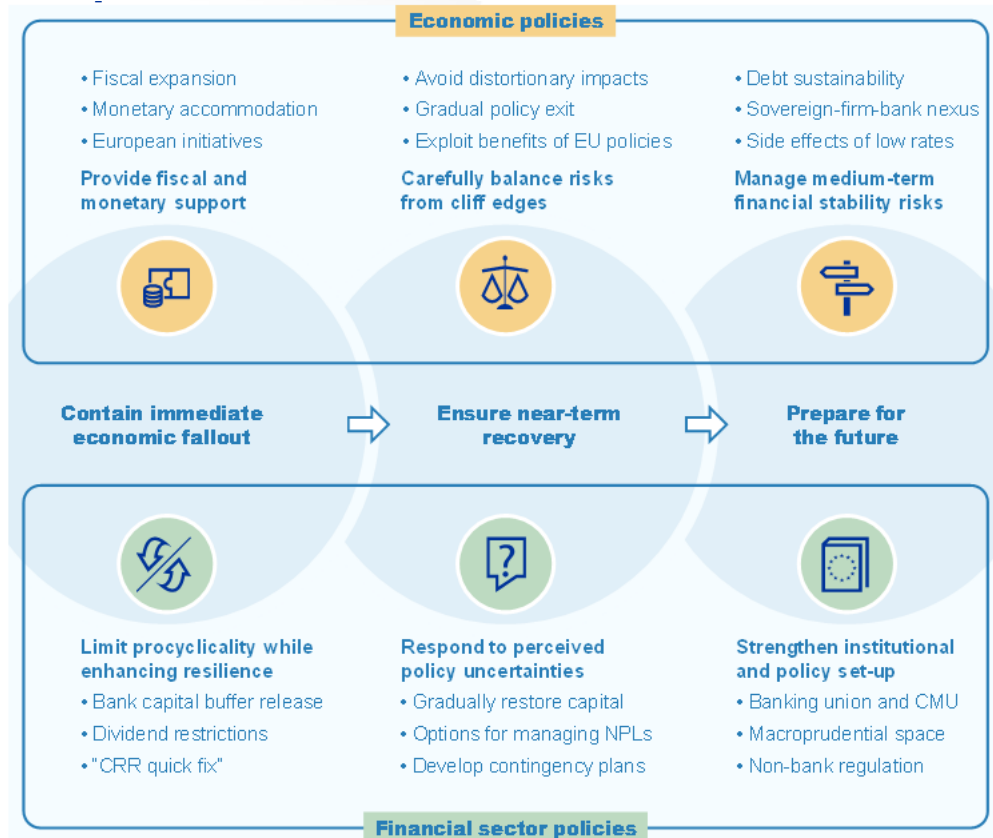
Sources: ECB (supervisory data) and ECB calculations.  
Note: Figures are on a trailing four-quarter basis.

## Actual and model-implied provisions of euro area banks (Q1 2004-Q2 2020, percentage of total loans)



Sources: ECB (supervisory data) and ECB calculations.

# Policy roadmap



Source: ECB.