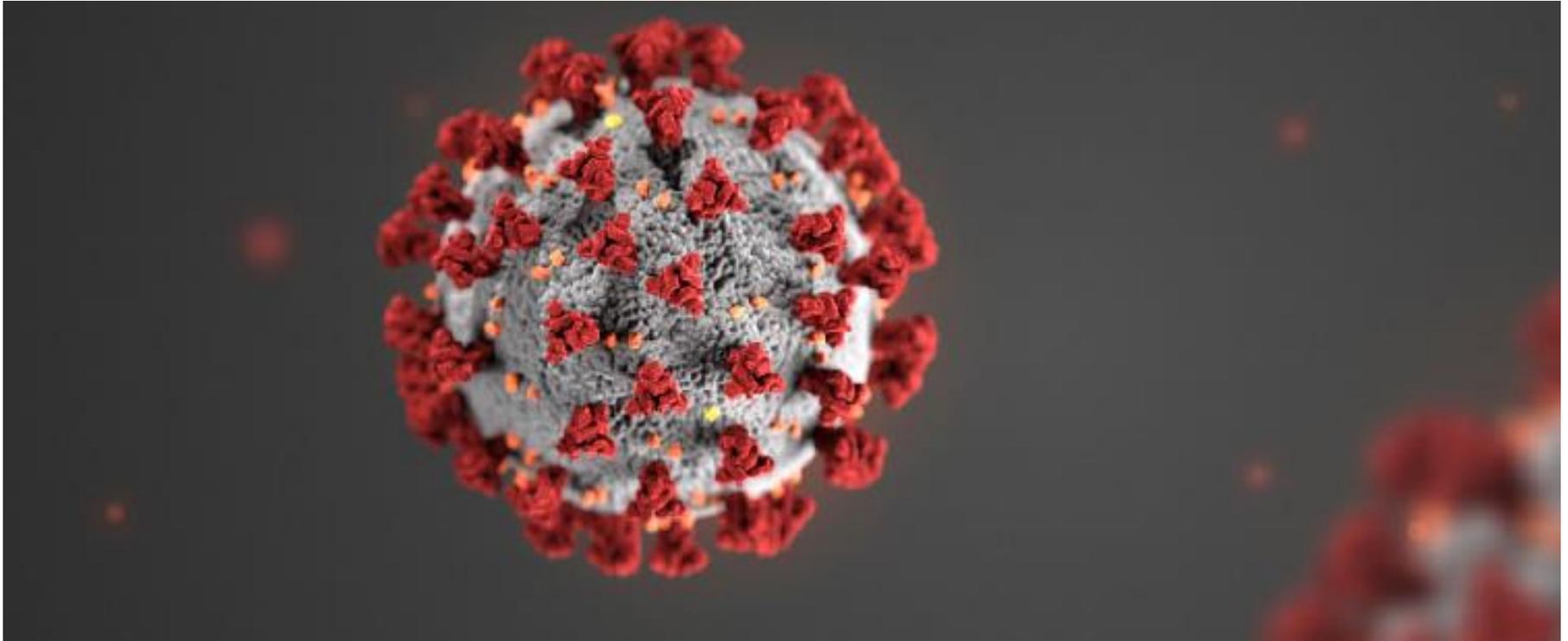


# Credit Outlook For European Banks Amid COVID-19

Pierre Gautier

June 18, 2020



---

**S&P Global**  
Ratings

# European Banks | Revised Base Case Has Spurred Negative Rating Actions

## 1. Economic Base Case: Short, Sharp Cyclical Shock

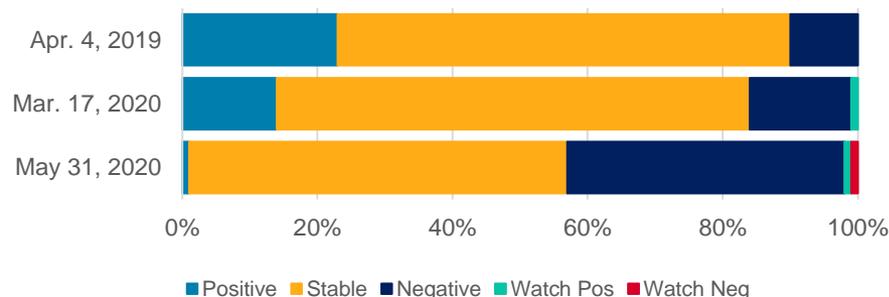
- We expect eurozone and U.K. GDP to **shrink** by 7.3% and 6.5% this year before **rebounding** by 5.6% and 6% in 2021.
- Ultra loose monetary policy, extensive fiscal support, and easing in bank capital and liquidity buffers **offer substantial support** to the real economy, bank asset quality, and bank capacity to extend credit without breaching buffer requirements.
- Still, the policy responses taken by countries across Europe may be **less than totally successful** in avoiding permanent economic damage.
- A significant component of these fiscal support packages comprises **additional indebtedness**--for sovereigns, some households, and many businesses.

## 2. Eurozone Economy Rebounds, But Loses Ground



Note: The Pre-COVID-19 baseline for GDP is as of November 2019. The new baseline for GDP also includes revised data prior to November 2019. Sources: Eurostat, S&P Global Ratings.

## 3. Sector Outlook Bias Is Now Heavily Negative

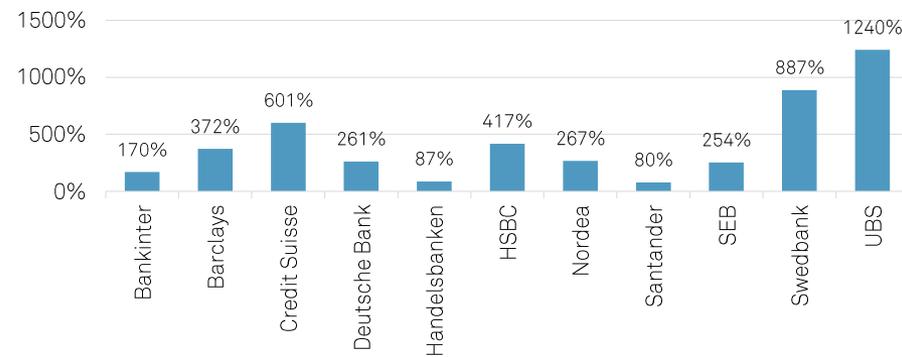


Data as of May 31, 2020. Reflects positioning of ICR outlooks. Implications for issue ratings on senior nonpreferred debt and other hybrids may be different as they are based on bank standalone credit profiles. Data covers Top 100 European banks.

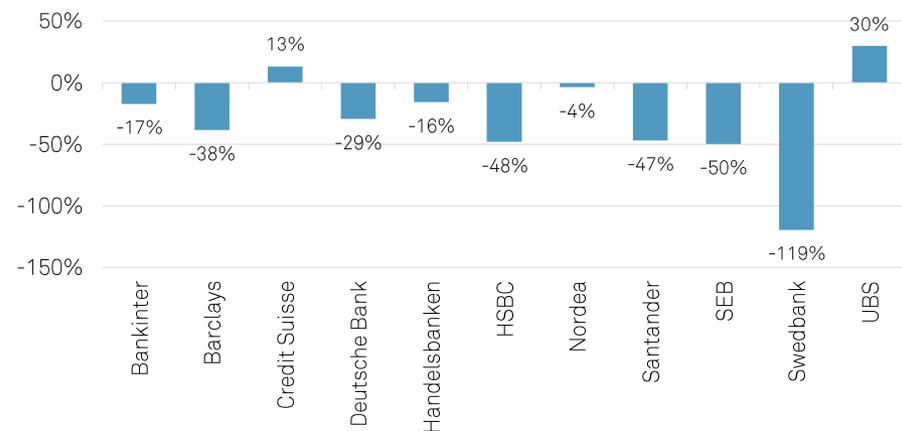
# European Banks | Q1 Results Confirm A Sharp Rise In Impairments

- Q1 results are already showing the effects from the economic "stop" across much of Europe, but full effects will take longer to filter through.
- Widespread forbearance measures don't mean an automatic indication of further sharp rises in credit losses – but much depends on assumptions about an economic rebound later this year and into 2021.
- Still, losses will inevitably rise through 2020 and banks' transparency in reporting will be important to investor confidence.
- We expect the effect on bank liquidity and capital ratios to be uneven.
- Many market movements that will affect 2020 results may not be visible in first-quarter disclosures, such as further margin pressure from low base rates and likely widening in pension fund deficits.

Change in credit impairment charges



Change in profit before tax



Source: Company reports. Data compares Q1-2020 to Q1-2019. The selection of banks is driven by larger banks that have reported results by April 29, 2020.

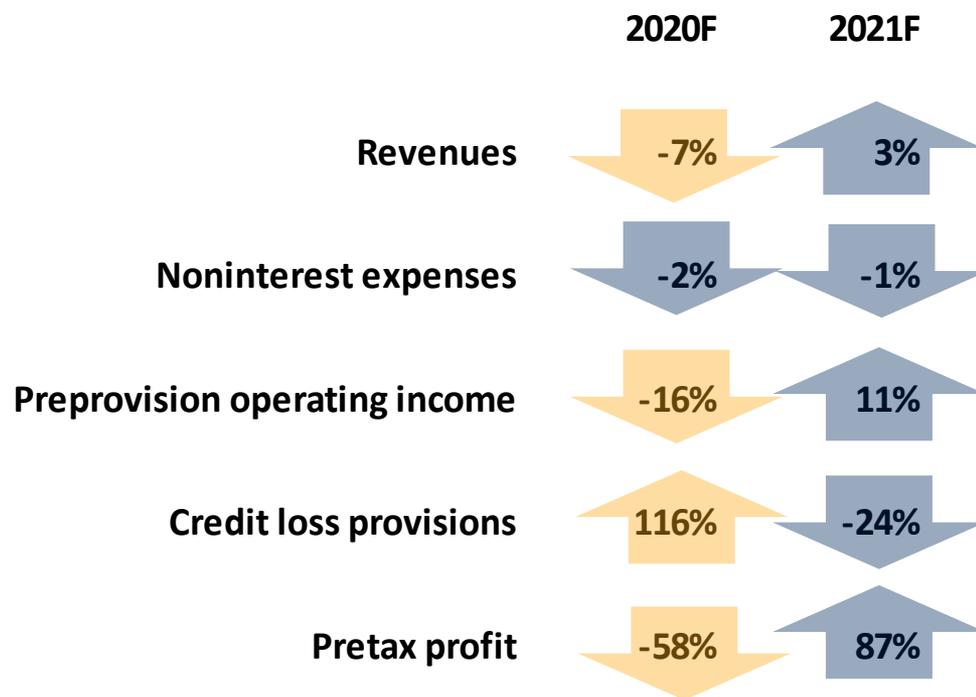
# European Banks | COVID-19 Weighs on Banks' Profitability ....(1/2)

## 1. Economic Base Case: Short, Sharp Cyclical Shock

- We expect **bank earnings, asset quality to weaken** through end-2020 and into 2021....
- **But opportunities exist** as well (energy transition, infrastructure etc...) for the banks/countries, which are forward looking.
- **Capital ratios** have improved after years of more stringent regulatory rules. Despite an expected decline, we do not expect large or systemic solvency issues.
- **Funding** should not be a problem, not least given ample availability of central bank funding. Wholesale markets have reopened but spreads will remain wider than before.

**The proactive and massive reaction of governments and of the ECB (and BoE) are critical** and should avoid a more dramatic economic collapse.

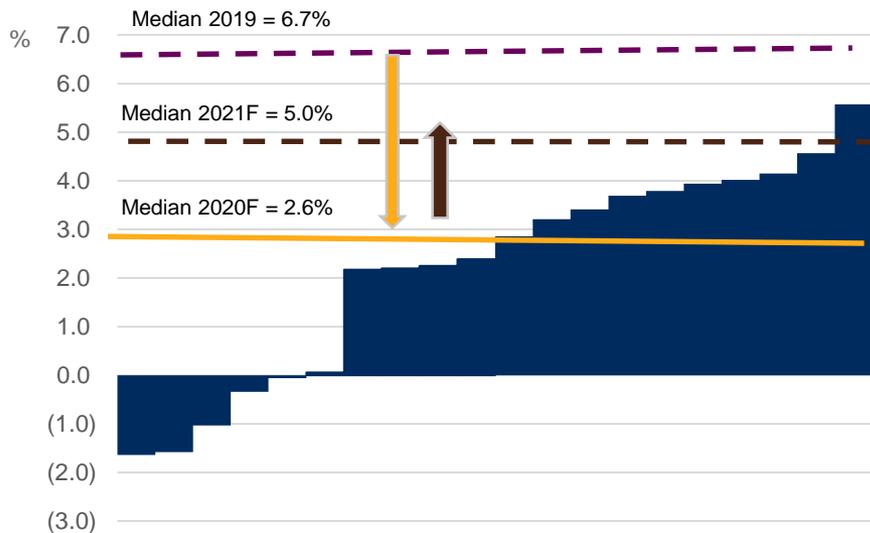
## 2. European Banks: Revenues Down, Credit Losses Up



Source: S&P Global Ratings. Data covers 20 of the largest European banks and reflects average year on year change. Data as of April 29, 2020.

# European Banks | But Above All COVID-19 Adds To Existing Profitability Pressures (2/2)

## 3. Already Depressed, ROEs Will Suffer



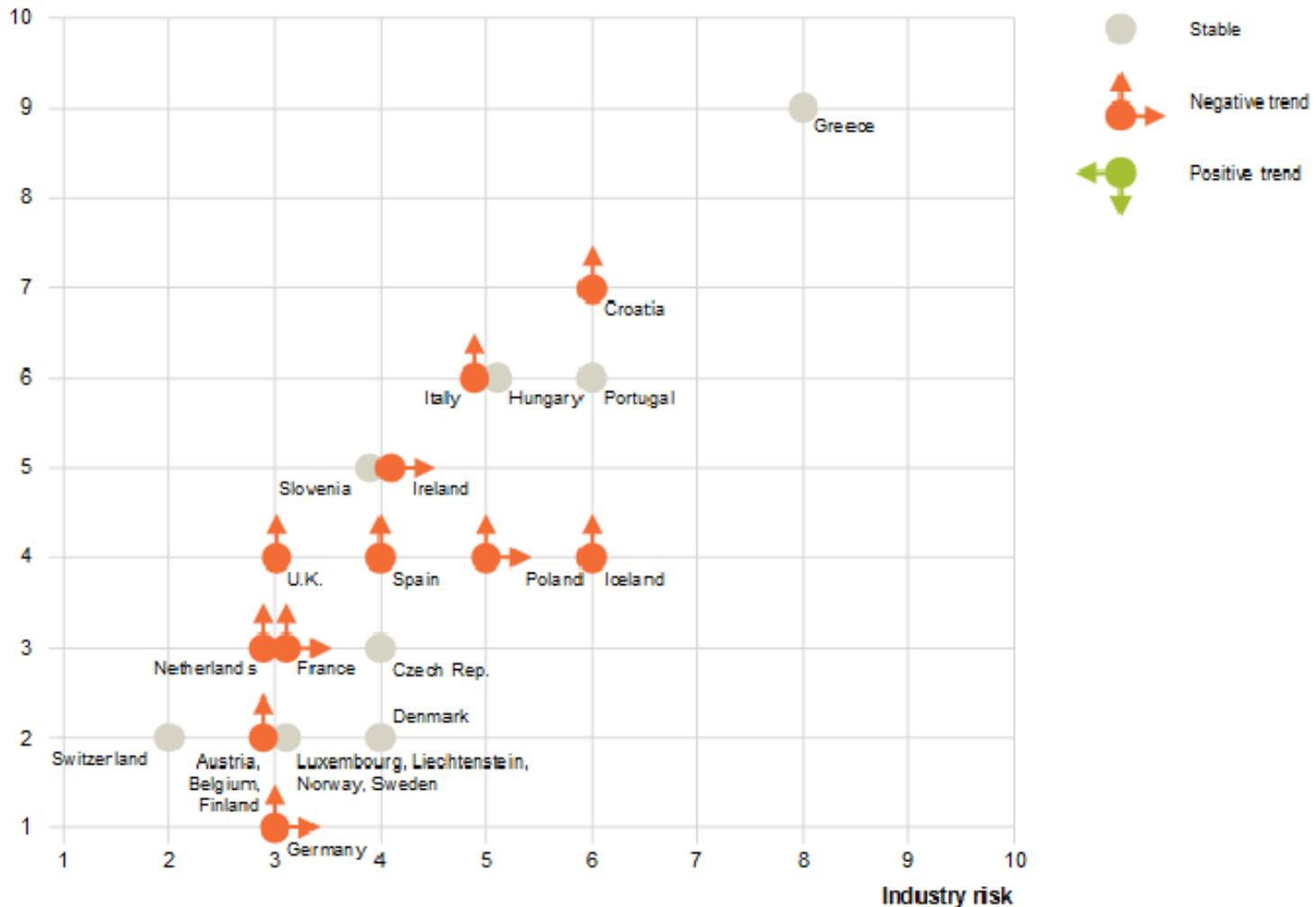
Source: S&P Global Ratings. Data covers 20 of the largest European banks. Data as of April 29, 2020.

## 4. Downside Risks Aplenty, But Outcomes Could Vary

- **Outlook bias** across Europe is now heavily (but not totally) negative.
- **Individual banks** bring their own blend of strengths and weaknesses. But there are **two broad sources** of downside economic risk:
  1. Longer lockdowns, worsening financing conditions or further worsening of Europe's external environment
  2. The effectiveness of fiscal and monetary measures may be insufficient or else may vary: economic structure and fiscal support (in its size, blend, and deployment) differ from country to country; therefore, so could the implications for the banks.
- **Future actions** could therefore be across national banking sectors, or follow idiosyncratic developments at individual banks.

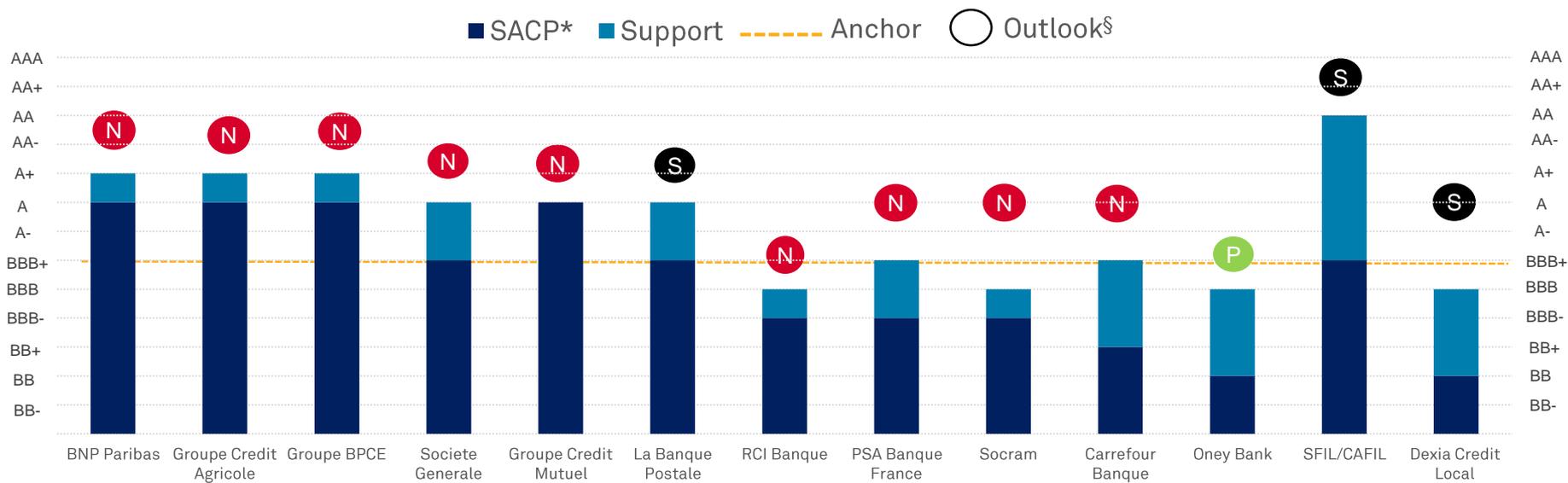
# BICRAs Pointing To Rising Downside Risks

Economic risk



Data as of May 31, 2020. Our BICRA groups are on a scale of '1' to '10', with '1' denoting the lowest-risk banking sectors.  
 Source: S&P Global Ratings  
 Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved

# Covid-19 crisis : Rising risks for French Banks



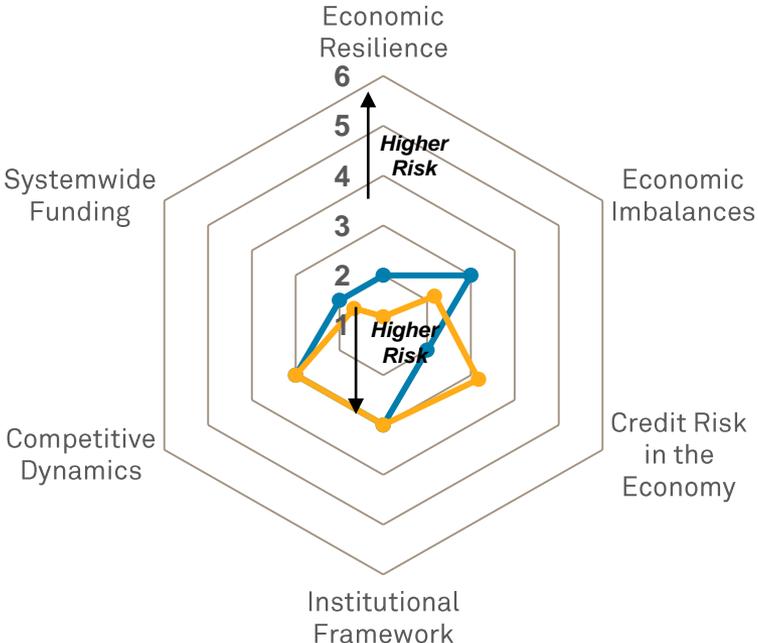
\*Stand-Alone Credit Profile or unsupported Group Credit Profile for Rated Groups. <sup>§</sup>P=Positive, S=Stable, All ratings as of 8th June 2020. Source: S&P Global Ratings.

# French Banks: Increasing Private Sector Leverage and Need For Efficiency Gains

## Banking Industry Country Risk Assessment: France

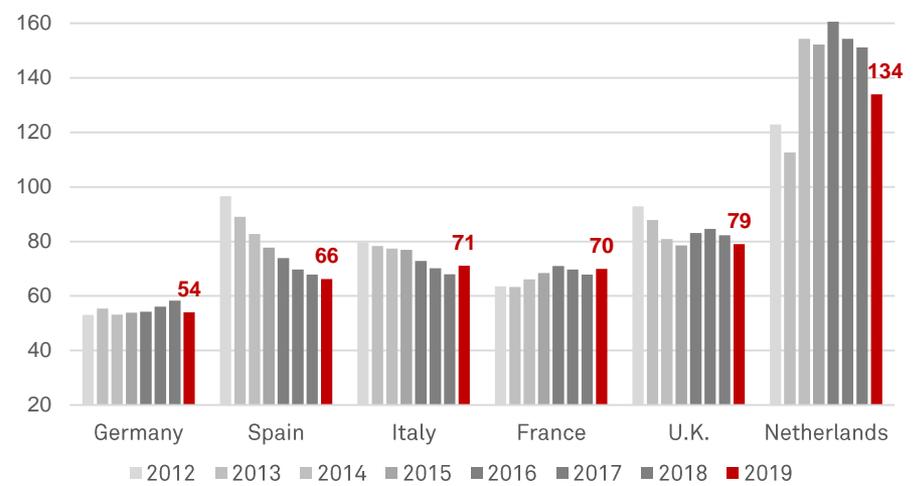
Sovereign Rating	AA/Stable/A-1+
BICRA Group / Anchor	3 / bbb+
Economic Risk	3
Industry Risk	3
Economic Risk Trend	Negative
Industry Risk Trend	Negative
Government Support	Uncertain

## BICRA France compares better than many Western European economies



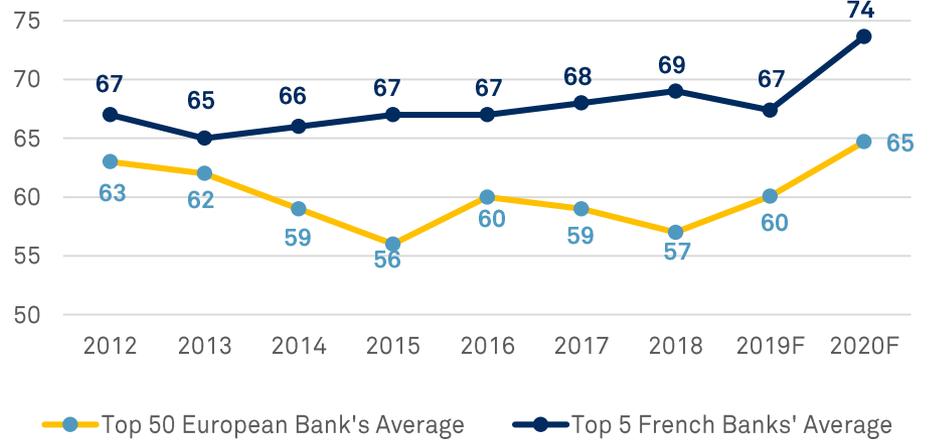
**S&P Global**  
Ratings

## Corporate debt was rising faster in France than in other countries



Sources: Banque de France, AG data

## French Banks demonstrate a higher cost-to-income ratio (%)



Source: Banks' Financial Statements and S&P Global Ratings calculations.

# France | S&P Global Ratings Economic Outlook

- We expect the French economy to contract by 8.0% in 2020 because of restrained household spending and disrupted supply chains due to lockdown measures.
- The economy is likely to rebound strongly in 2021 (6.1%) as household spending and investment revert to normal, backed by fiscal stimulus of €45 billion (2% of GDP) and another €300 billion in public guarantees on corporate borrowings to circumvent liquidity issues.
- The latest business surveys show that industry has slowed the most since the financial crisis. While some factories have shut, the services sector, which accounts for nearly 80% of the economy, is set to be hit the most especially as tourism, transport, and hospitality grind to a halt.

	2017	2018	2019	2020F	2021F	2022F	2023F
Real GDP (% y/y)	2.4	1.7	1.3	(8.0)	6.1	4.5	2.3
Real exports (% y/y)	4.0	3.5	1.9	(7.5)	6.3	4.4	3.2
Real imports (% y/y)	4.1	1.2	2.2	(6.8)	7.7	5.7	2.9
Real fixed investment (% y/y)	5.0	2.8	3.6	(6.4)	7.7	4.3	4.8
Real private consumption (% y/y)	1.6	0.9	1.2	(12.0)	8.1	6.8	2.6
Real government consumption (% y/y)	1.5	0.8	1.3	2.8	1.0	0.6	0.6
CPI inflation (% y/y)	1.2	2.1	1.3	0.7	1.2	1.5	1.5
Unemployment rate (%)	9.4	9.1	8.5	9.5	9.7	9.1	8.7
Short term interest rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term interest rate (%)	0.8	0.8	0.1	0.0	(0.1)	0.1	0.3
Exchange rate (\$ per €)	1.1	1.2	1.1	1.1	1.1	1.1	1.1

F--S&P Global Ratings Research forecast. y/y--Year on year. Source: Oxford Economics.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

**[spglobal.com/ratings](http://spglobal.com/ratings)**