Consequences for banks’ business from Covid-19 and policy responses
Covid-19 disruption and policy reaction

1) Monetary policy: Strong support and stimulation
2) Supervisory policy: flexibility within regulatory limits
3) Regulatory policy: quick fix to secure bank lending
4) Recovery fund rounding off a multi-pronged policy reaction

ECB LTROs and PEPP

COMMISSION RECOVERY FUND

SUPERVISORY FLEXIBILITY

QUICK FIX

Sources: Bloomberg, ECB

Spread Italian-German 10-year bond

Quick Fix

Bps of CET1

Temporary
Discretionary
Permanent

Sources: EBF, diverse analysts
Shock absorption and endurance

**EU BANK CAPITAL RATIOS**

- Common Equity Tier 1 Capital
- Total Capital

- **AT1 & T2**
- **CET1 BUFFER**
- **MDA ZONE**

**AT1 & T2 YTM% SECONDARY MARKET**

- EUR Banks AT1
- EUR Banks T2

**Increased loss absorbency and voluntary CET1 buffers**

**Extenuating circumstances shook convertible bonds market temporarily**

**Ample market liquidity attenuated volatility shock**
An accomplishment and an unresolved issue

% LOAN GROWTH DURING COVID-19

Credit maintained and enhanced

Longstanding reversal gap
cost-of-equity return-on-equity

Source: ECB

REVERSAL GAP COE-ROE

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