

BANK RESILIENCE AND COVID

Remarks at EUI webinar on “Supervisory Measures in the Context of the COVID-19 Pandemic”

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APPROPRIATENESS OF POLICY RESPONSE DEPENDS ON WHAT YOU BELIEVE ABOUT DURATION OF THE CRISIS AND STATE OF AC (AFTER COVID) VS BC

If **short** duration and AC **largely same** as BC...

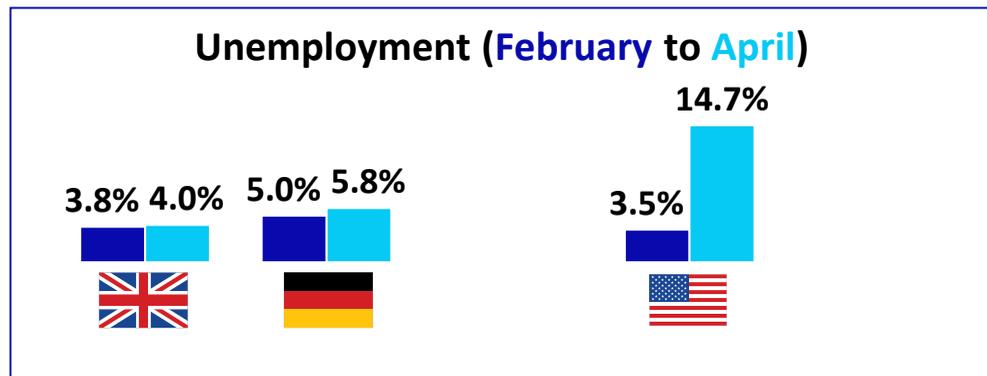
- Quick recovery
- Keep employees in place
- Finance through employers
- Liquidity concerns
- Short term financing
- Avoid bankruptcy

Better suited for debt financing

If **long** duration and AC **quite different** than BC...

- Slow, choppy recovery
- Provide flexibility for labor reallocation
- Finance through unemployment insurance
- Solvency concerns
- Longer term financing
- Make bankruptcy / restructuring easier

Better suited for equity financing



HOW RESILIENT ARE THE BANKS? FROM “IN VITRO” TO “IN VIVO”

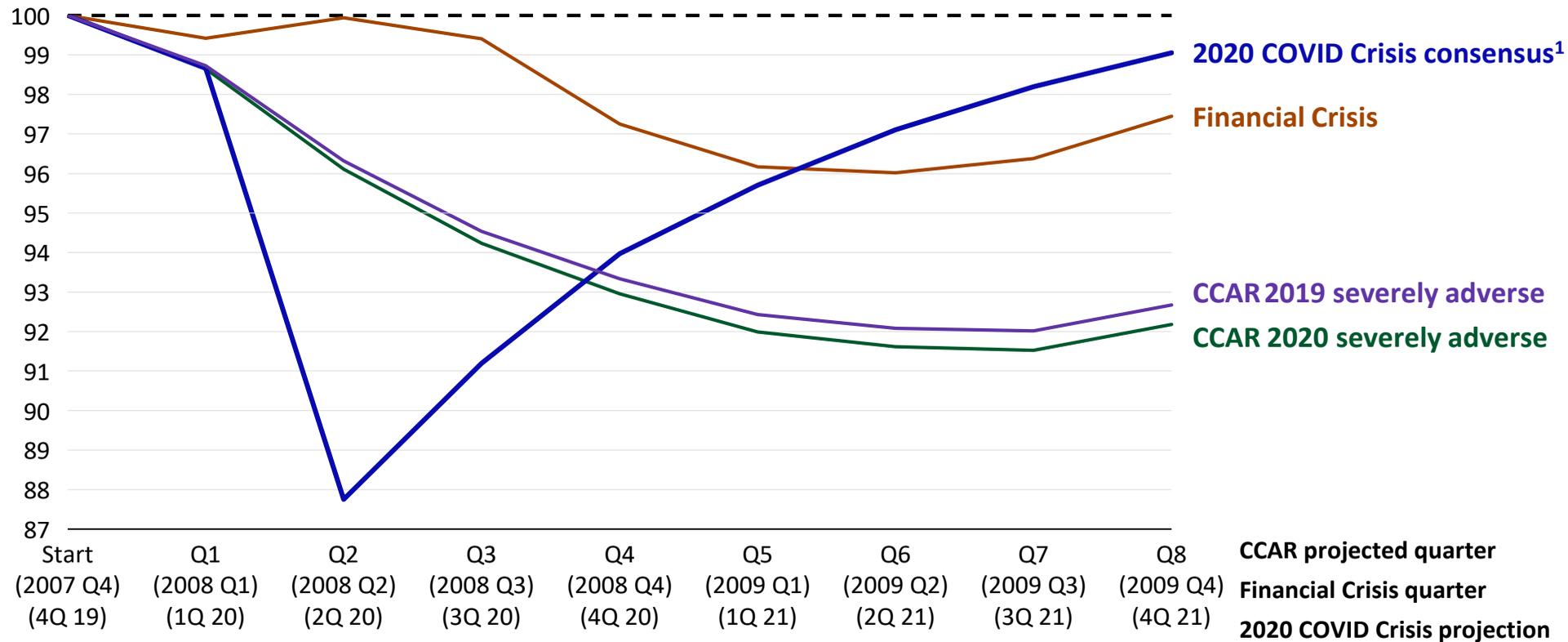
In this crisis, banks are part of the solution, not the problem”

- From the Great Financial Crisis to the Great Pandemic Crisis
- Banks have greatly increased their self-insurance against shocks . . .
 - More capital
 - More liquidity
- . . . and significantly improved their risk management capabilities
 - Better risk identification and vulnerability assessment
 - Better data, systems and controls (e.g. model risk management)
- Stress testing played a major role in the post-crisis push to resiliency
- Pandemic hit while banks in Europe & US were engaged in their regular stress test exercises
 - ECB/EBA and Bank of England hit pause
 - Federal Reserve continued the exercise
- So what has been banks’ experience?
 - While a very different scenario than those stress tested against, banks are holding up well (so far....)
 - EBA estimate that largest 117 banks in EU could suffer €315B (\$343B) losses due to COVID against 2018 stress test results of €534B (\$587B) based on just 48 banks
 - 2019 US stress test projected \$410B (~€373B) in stress losses for 18 largest banks
 - However, stress testing machinery is proving to be somewhat unwieldy: not conducive to rapid scenario development and implementation

CUMULATIVE PROJECTED GDP LOSS IS LESS THAN 2020 STRESS TEST SCENARIO

U.S. Real GDP relative to Q4 2019 (100) and compared to CCAR and Financial crisis

Estimates as of Apr-20¹ US GDP Indexed to P0 (CCAR 2020 & CCAR 2019)² and 4Q07 (Financial Crisis)³



1. Consensus as the average of Goldman Sachs (May 12), JP Morgan (May 8), Morgan Stanley (May 15), CBO (Apr 24), TD (Apr 20), UBS (Apr 29), Deutsche (May 12) forecasts, Bank of America (May 8), Q1 forecasts based on latest estimates before release of Q1 GDP actual

2. Source: "CCAR 2020 data release", "CCAR 2019 data release" - Federal Reserve

3. Source: Federal Reserve Economic Data

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