



EUROPEAN CENTRAL BANK

EUROSYSTEM

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

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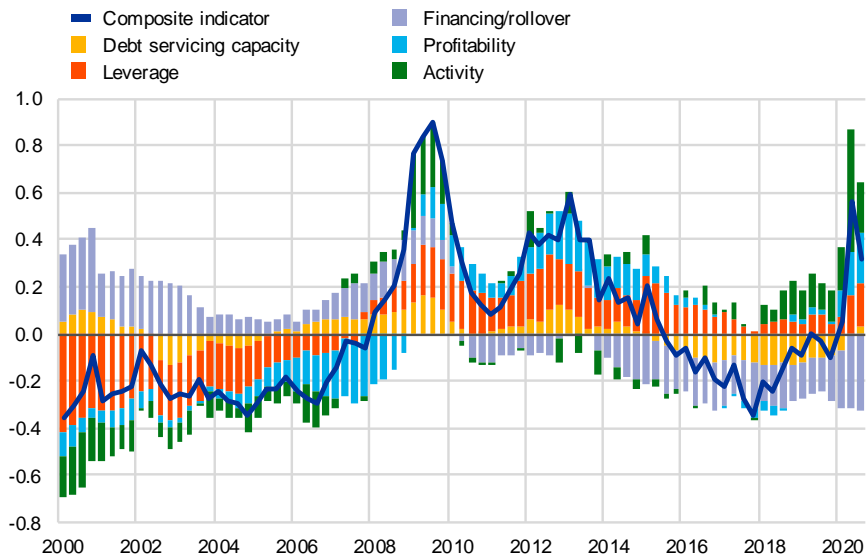
Conference on “Financial Cycles, Risk, Macroeconomic Causes and Consequences”
London School of Economics



Broad-based government support in response to rising corporate vulnerabilities

Composite indicator of corporate vulnerabilities and underlying driving factors

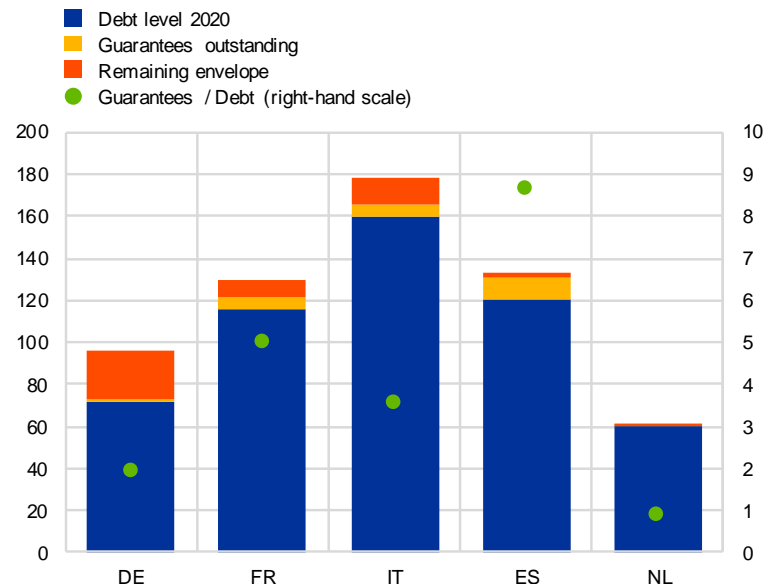
Q1 2000 – Q3 2020, z-scores



Sources: Eurostat and ECB calculations.

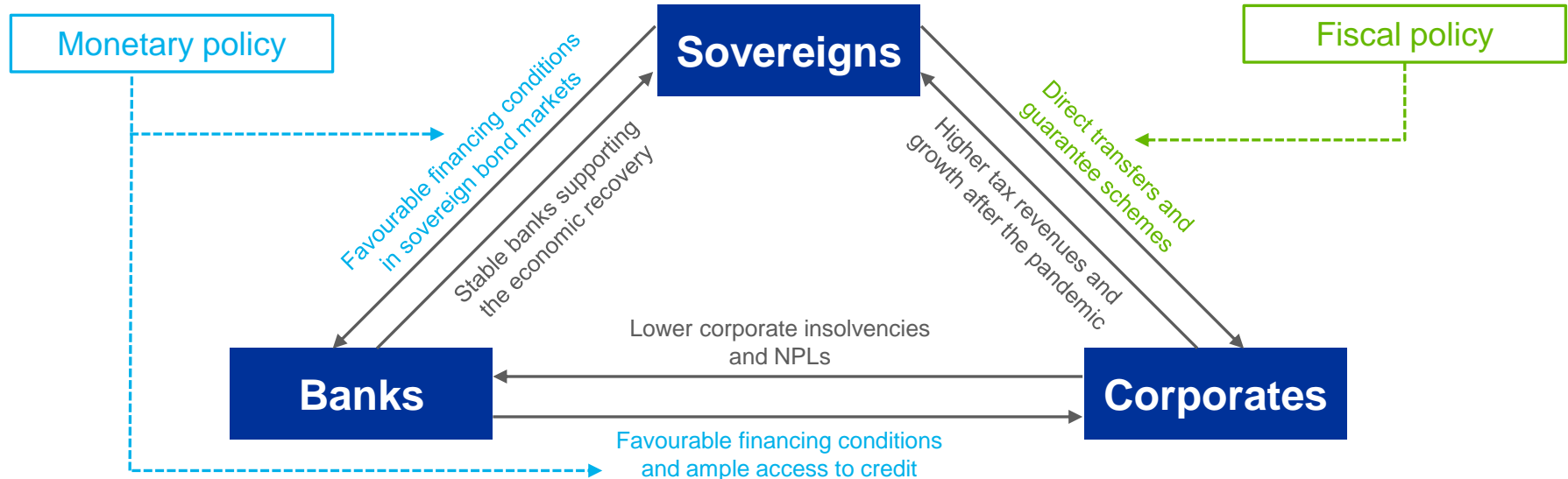
Loan guarantees and remaining envelopes relative to sovereign debt in 2020 in selected euro area countries

Percentages of GDP and outstanding sovereign debt



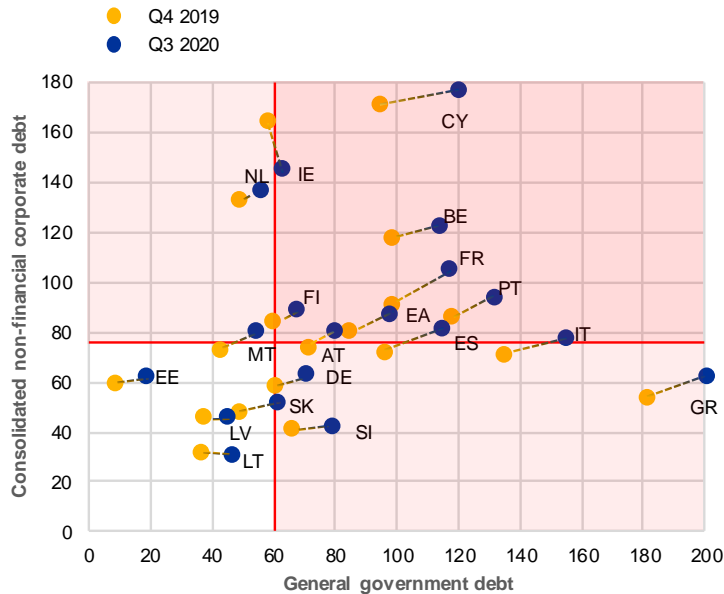
Sources: National authorities and ECB calculations.

A virtuous circle between sovereigns, banks and corporates



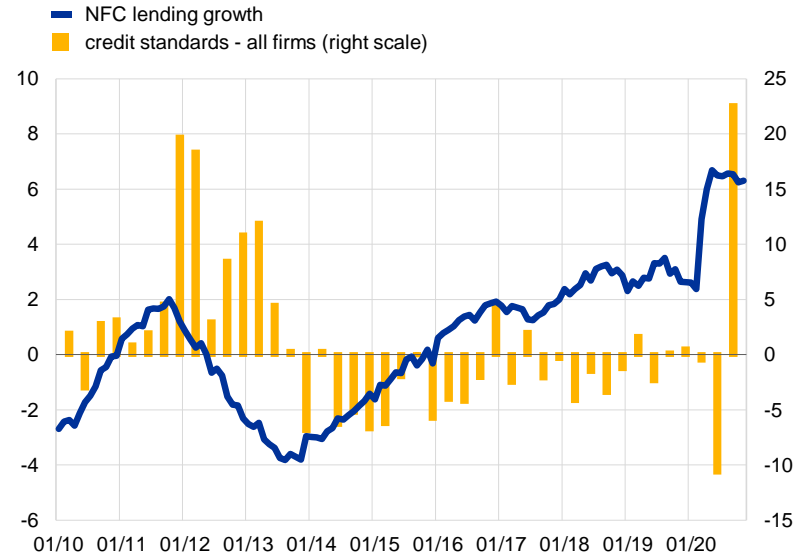
Rising sovereign and corporate debt going along with a tightening of credit standards

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.

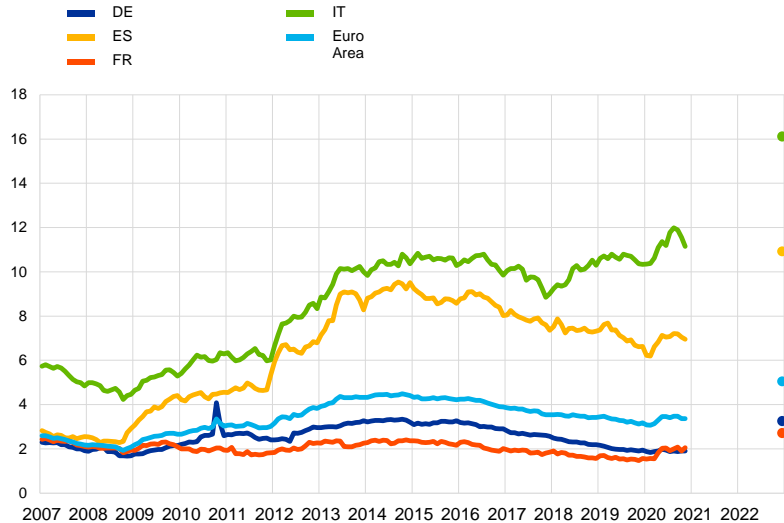
Bank lending to euro area non-financial corporations and bank credit standards
Annual percentage changes, weighted index



Sources: ECB (BSI statistics, Bank Lending Survey) and ECB calculations.

Persistent links between sovereigns and banks

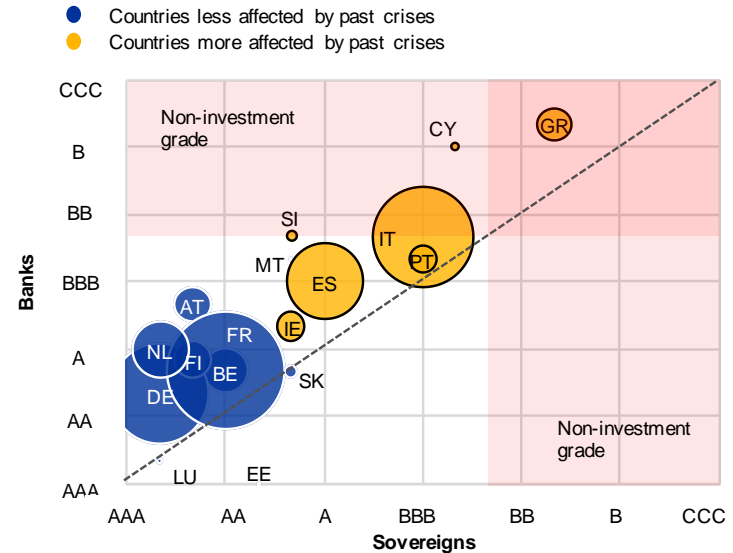
Euro area bank exposures to domestic sovereign debt securities relative to total assets Jan. 2007-Sep. 2020, *observed*; end-2022, *potential*; percentage of total assets



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.

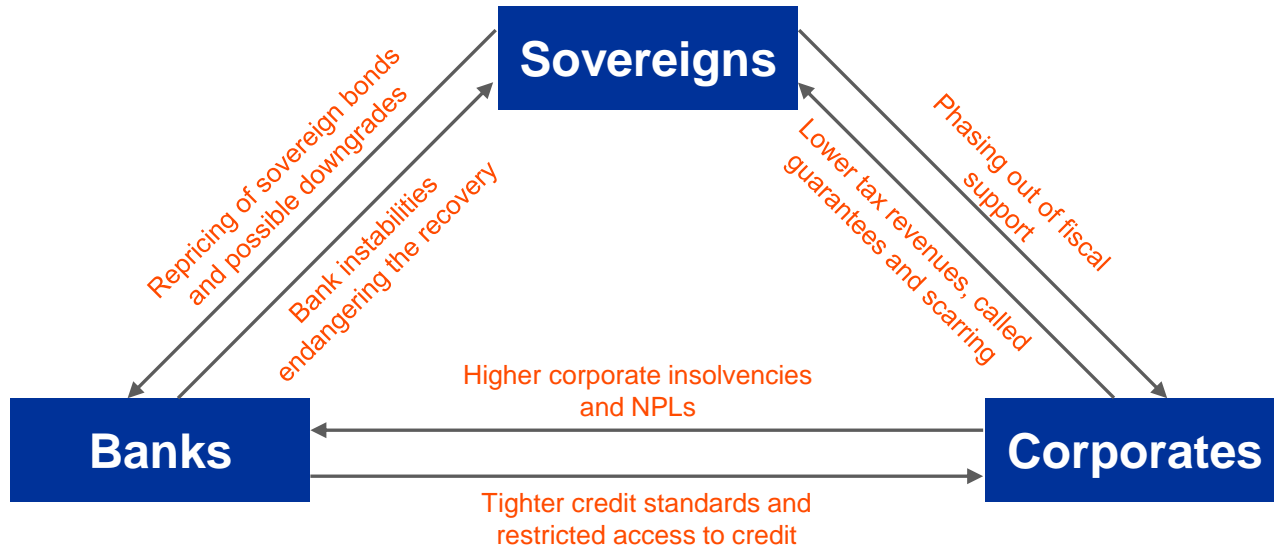
Issuer ratings of euro area sovereigns and banks in the euro area

Rating buckets



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.

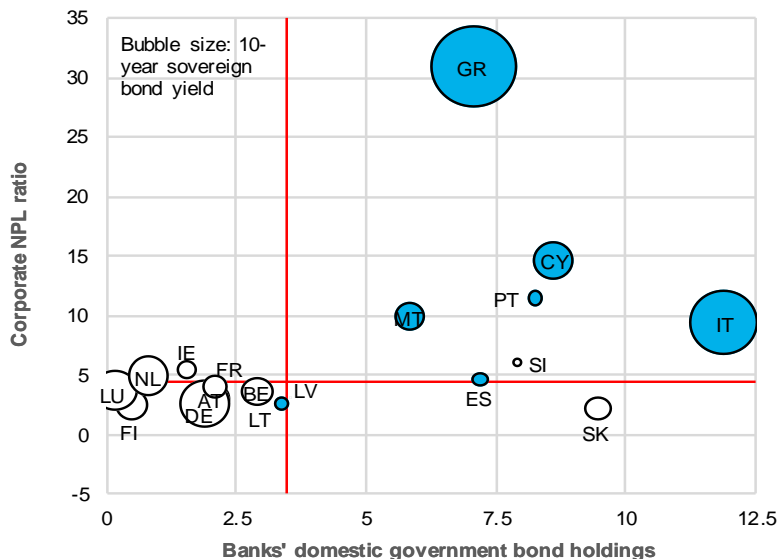
Continued fiscal and monetary support for as long as necessary can avoid a vicious circle between sovereigns, banks and corporates



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

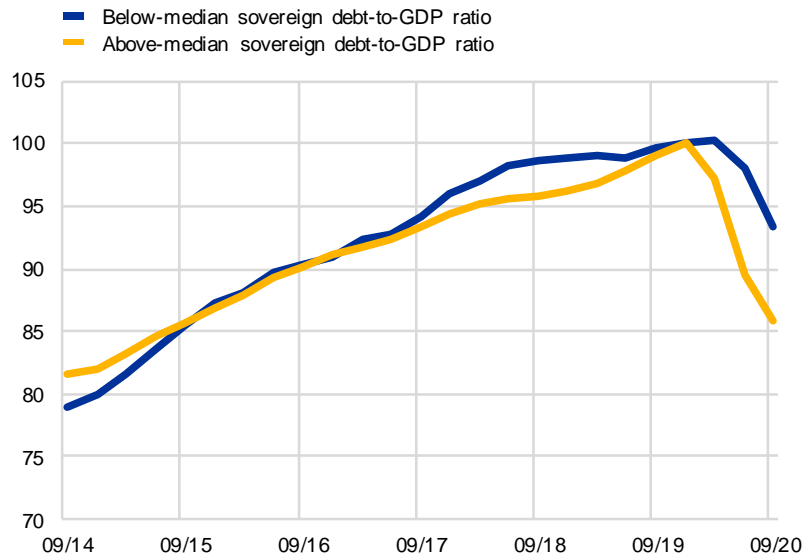


Sources: Bloomberg and ECB.

Notes: White bubbles indicate negative values. The red horizontal and vertical lines indicate sample medians.

Non-financial corporate profits by sovereign indebtedness

Q3 2014 – Q3 2020, index Q4 2019 = 100



Sources: European Commission (AMECO database) and ECB calculations.

Thank you very much for your attention!