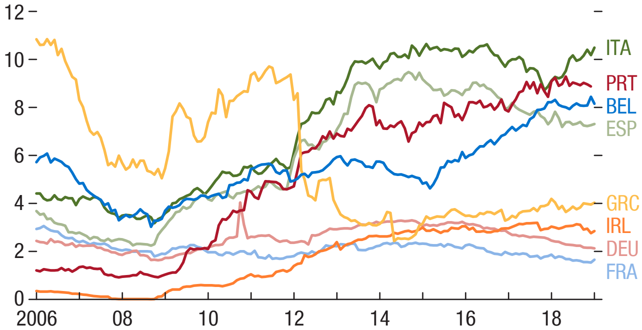
Figure 1.17. Euro Area Banks, Sovereign Shocks, and Nonperforming Loans

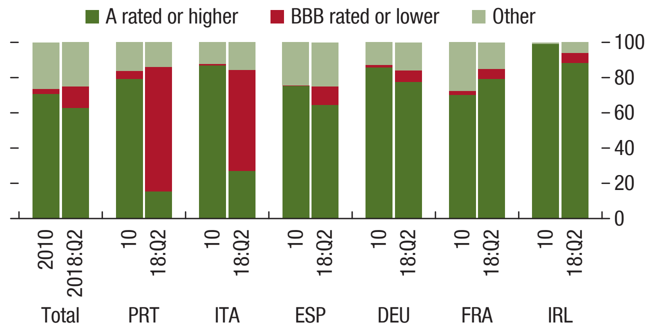
Some banks have strengthened their links to domestic sovereigns ...

1. Banking Systems' Holdings of Domestic Government Bonds
(Percent of assets)



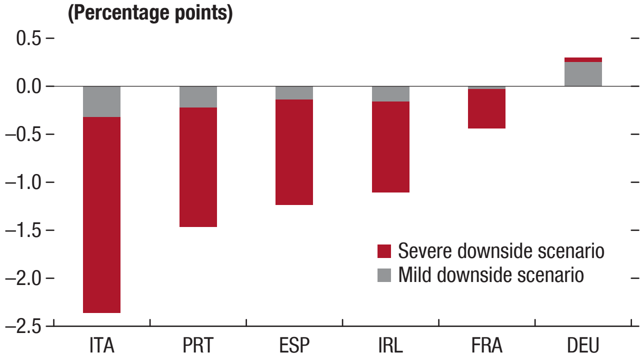
... and sovereign credit ratings have been downgraded in some countries ...

2. Bank Government Bond Holdings by Rating
(Percent of government bond portfolio)



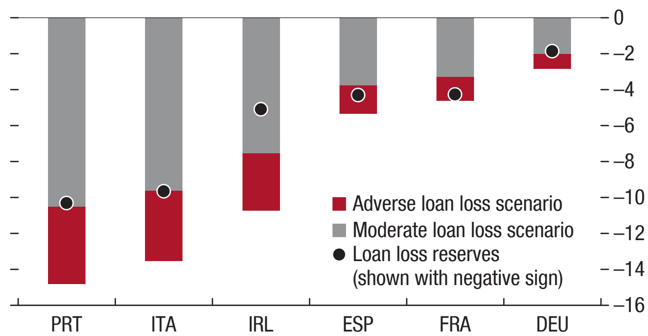
... which together could create losses for banks.

3. Estimated Impact of Sovereign Bond Mark-to-Market Valuations on Tier 1 Capital Ratios, 2018:Q2
(Percentage points)



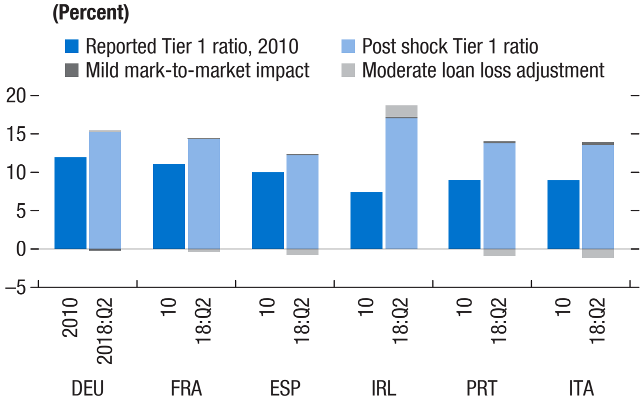
Banks may also need to recognize losses on nonperforming loans that in some countries could exceed loan loss reserves.

4. Estimated Loan Losses and Reserves, 2018:Q2
(Percent of risk-weighted assets)



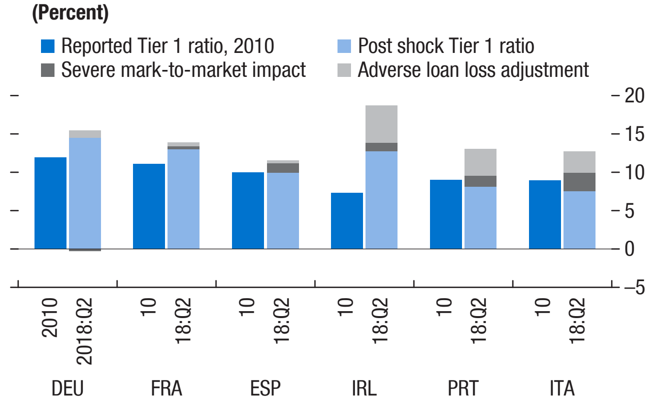
Higher buffers have left most banks better prepared for shocks ...

5. Tier 1 Capital Ratios: Moderate Downside Scenario
(Percent)



... but in an adverse downside scenario, capital ratios would come under more pressure.

6. Tier 1 Capital Ratios: Adverse Downside Scenario
(Percent)



Sources: Banca IFIS; Bloomberg Finance L.P.; European Banking Authority; Haver Analytics; national central banks; PriceWaterhouseCoopers; SNL Financial; and IMF staff analysis.
Note: Panel 1 is based on banking system data, while panels 2–6 are based on the sample of banks in the European Banking Authority transparency exercise (EBA banks). Panel 5 (6) shows the impact of the mild (severe) downside scenario for changes in government bond yields and the moderate (adverse) scenario for the loan loss adjustment. Positive values for the loan loss adjustment and mark-to-market impact in panels 5 and 6 represent a fall in the capital ratio; negative values represent an increase in the capital ratio. The capital ratios include the impact of reductions in risk-weighted assets related to the disposal of unsecured nonperforming loans, which can in some cases result in a negative number (an improvement in the capital ratio) for the impact of the loan loss adjustment; see Online Annex 1.1 for more details. Data labels in the figure use International Organization for Standardization (ISO) country codes.