European banks: a stable stock of government-backed loans

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Chart of the week

One of the key measures taken in Europe to deal with the health crisis was the granting of bank loans at very low rates to companies, combined with a government guarantee in case of default. These loans were intended to provide liquidity to solvent companies whose activities were affected by the sanitary measures implemented (lockdowns, restrictions, etc.). The interest on these loans is deferrable and their repayment terms have sometimes been extended.

The overall outstanding amount of these loans at the EU level is monitored by the European Banking Authority (EBA), which published its risk report for the third quarter of 2021 in early January. Loans under state guarantee were stable compared to the previous two quarters, at 378 billion euros:
OUR ANALYSIS

Government-backed loans proved to be very useful until the first quarter of 2021, at the height of the pandemic. Since then, companies and banks have made little use of them. In our view, the spread of the Omicron variant will probably not lead to a reintroduction of this financing tool, given the now more relaxed restrictions that apply to businesses. The overall level of government-backed loans should therefore remain stable in 2022.

Furthermore, EBA observes a low default rate (non-repayment) on these loans, reaching 2.4% in the third quarter of 2021. Applied to 378 billion euros, this figure translates into 9 billion euros of loans not repaid. For the banks, the impact remains very small because 60% to 100% of the losses are assumed by governments, depending on the country and the type of loan. It should be noted that the default rate will likely continue to increase slightly over the next few quarters, with little or no impact on the income statement of European banks.

See also: https://lazardfreresgestion-tribune.fr/en/in-2021-risk-has-paid-off-in-fixed-income-markets/

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The following opinion was written on January 14, 2022 and is susceptible of changing.

*Sources : Bloomberg, and calculation from Lazard Frères Gestion

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