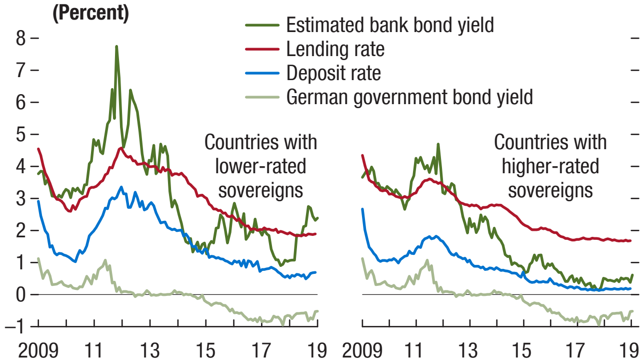
Figure 1.19. Euro Area Bank Profits and Funding

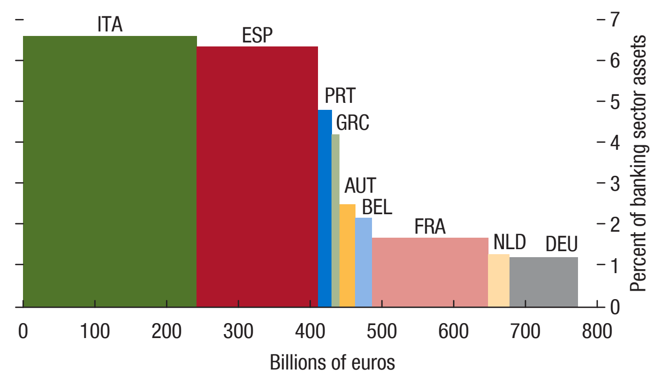
Some banks are already facing rising wholesale funding costs ...

1. Banking Sector Interest Rates on New Loans and Funding (Percent)



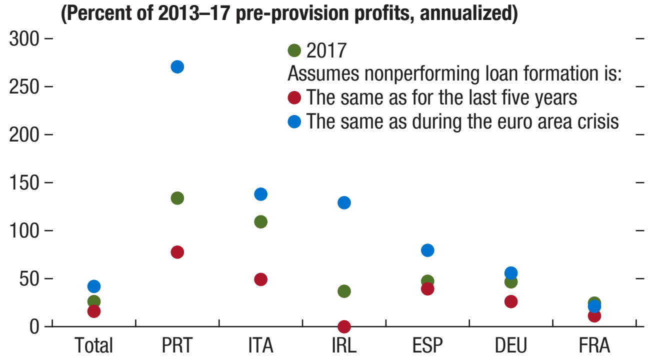
... but central bank liquidity support should limit rises in the overall cost of funding.

2. Central Bank Liquidity Support to Banking Systems



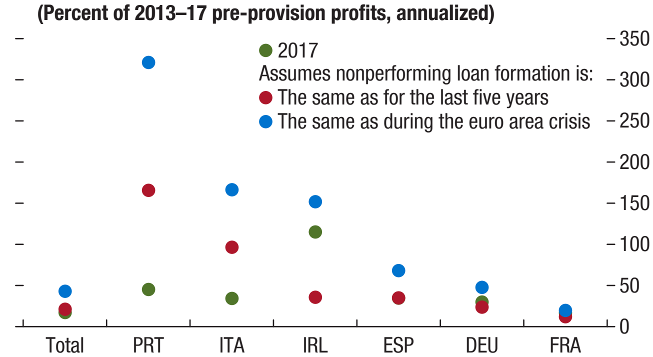
Bank provisioning is likely to curtail profitability ...

3. Estimated Impact of Provisioning to Fully Cover New Nonperforming Loans on Profitability, 2019–23 (Percent of 2013–17 pre-provision profits, annualized)



... as would a cleanup of bad loans.

4. Estimated Losses from Reducing Gross Nonperforming Loan Ratios to 5 Percent by 2023 (Percent of 2013–17 pre-provision profits, annualized)



Sources: Bloomberg Finance L.P.; European Banking Authority; European Central Bank 2017 and 2018; Haver Analytics; national central banks; SNL Financial; and IMF staff calculations.

Note: Panels 1 and 2 are for the banking system as a whole, while panels 3 and 4 are based on the banks in the European Banking Authority transparency exercise (EBA banks). Countries with lower-rated sovereigns are those where the government currently has a credit rating of BBB or below (Cyprus, Greece, Italy, Portugal). Panel 1 shows interest rates weighted by the type of loans or deposits. Bank bond yields are estimated using average bank credit default swap spreads in each banking system. Panels 3 and 4 show the amount of pre-provision profits (based on the average profits during 2013–17) that would be absorbed each year over the period 2019–23 by provisions for losses or from the disposal of bad debts in the simulations. Data labels in the figure use International Organization for Standardization (ISO) country codes.