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# The Corona crisis and the stability of the European banking sector

## A repeat of the Great Financial Crisis?

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This paper suggests that the fortunes of European banking systems will depend on the economic recovery we will experience. To get insights on the recovery to be expected, we present the latest economic forecasts and contrast the current crisis to the Great Financial Crisis. Afterwards, we present the results of the 2018 EBA adverse stress test and compare the stress test scenario with a plausible “ticked-shaped” recovery post Covid-19. To assess the impact of the crisis on the stability of the banking system, the paper presents illustrative impacts on capital ratios - one of the key benchmarks used to assess the stability of banking systems - in a selected number of EU member states. The paper suggests that capital ratios could drop dramatically in a number of EU member states such as France and Spain well below what supervisors generally consider to be “sound” even under stress conditions. Our illustrative scenario

suggests that banking systems in a number of European countries would likely come under extreme stress and would probably fail a rigorous stress test. Finally, we go one step further and give an outlook to what the Covid-19 crisis might mean for the future of the EU's Banking Union and Capital Markets Union.

## Project

- [Repair and Prepare: Strengthening Europe](#)

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