Assumes nonperforming loan formation is:
The same as during the euro area crisis
The same as for the last five years

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.