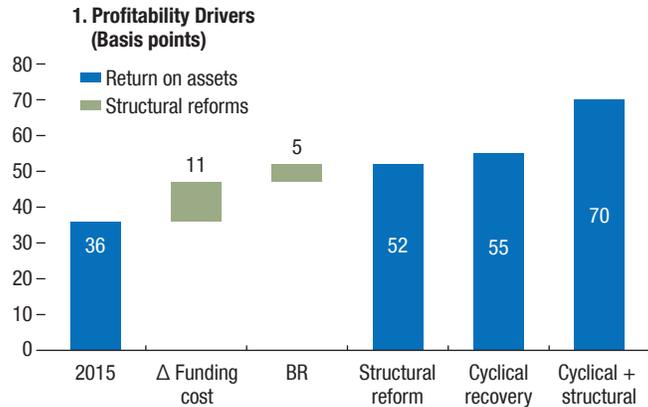
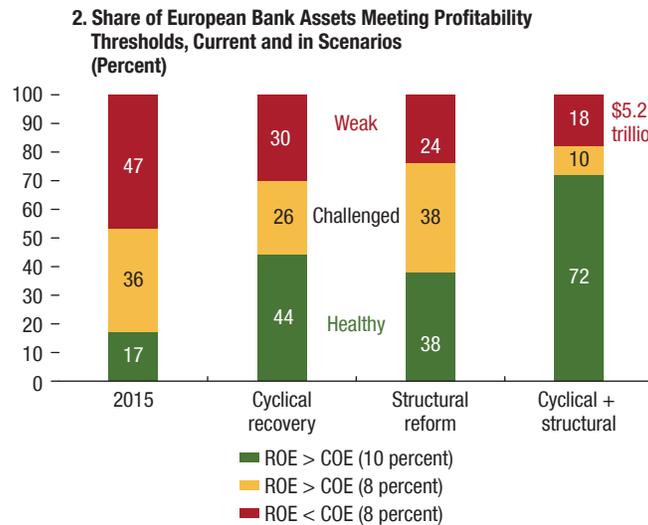


Figure 1.17. European Bank Profitability in a “Structural Reform” Scenario

Cyclical recovery and structural reform combined would raise European banks’ return on assets by 34 basis points ...



... and allow over 80 percent of sector assets to satisfy an 8 percent cost of equity.



Sources: Bank financial statements; Bloomberg L.P.; Credit Sights; European Central Bank; Fitch Ratings; SNL Financial; and IMF staff estimates and analysis. Note: “Cyclical + structural” values do not add up because of rounding. The structural reform scenario is considered for European banks. The scenarios considered are different from the stress tests, and aim to focus on the profitability and sustainability distribution under the defined variables. BR = branch rationalization; COE = cost of equity; ROE = return on equity.