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COVID-19 and Banking

How the pandemic affects the banking sector

1. The banking stock market indices around the world have reacted with varying intensity in individual countries.

2. The Polish banking index has not yet begun to recover, plunging into crisis.

3. Investment banking has also experienced a strong decline in value.

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International context – USA

The banking sector worldwide has experienced a decline of varying degrees of intensity.

The severity of the fall of the US banking index has far exceeded the drop of the Dow Jones Industrial Average main index, which fell by 35% in the second half of May compared to the beginning of the year. During this period, the decline in the Dow Jones Banks value reached 50%.

The two indices are also recovering at different rates. By the beginning of June, the main index was down only 12% compared to its January value, while the banking index was still 35% below this year's initial value.

The FED's maintenance of very low interest rates, its sustained policy of quantitative easing on a large scale, and other schemes to support the liquidity of the US financial system provide significant help to the economy in times of slowdown. Given the controversy over the effectiveness of unconventional monetary policy instruments, a final assessment of the actions taken will only be possible at a later stage

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International context – Germany

The German banking index reacted quite similarly to the DAX main index. In both cases, the drop in value to the lowest levels occurred in the second half of March and fluctuated around 37%.

However, the recovery pattern was different, as the bank index had bigger problems to rebound. Nevertheless, at the beginning of June, the values of both indices came close again, with losses of 10-11% compared to the beginning of the year.

Germany's presence in the euro area has mitigated the decline of the German banking index. Here too, the low interest rates maintained by the European Central Bank proved helpful. In the long term, the situation of the banking sector will depend, among other things, on the intensity and duration of the economic crisis, which directly affects the liquidity of businesses and individuals. Insolvencies of bank customers may in the future lead to the continuation or even aggravation of the crisis in the German banking sector.

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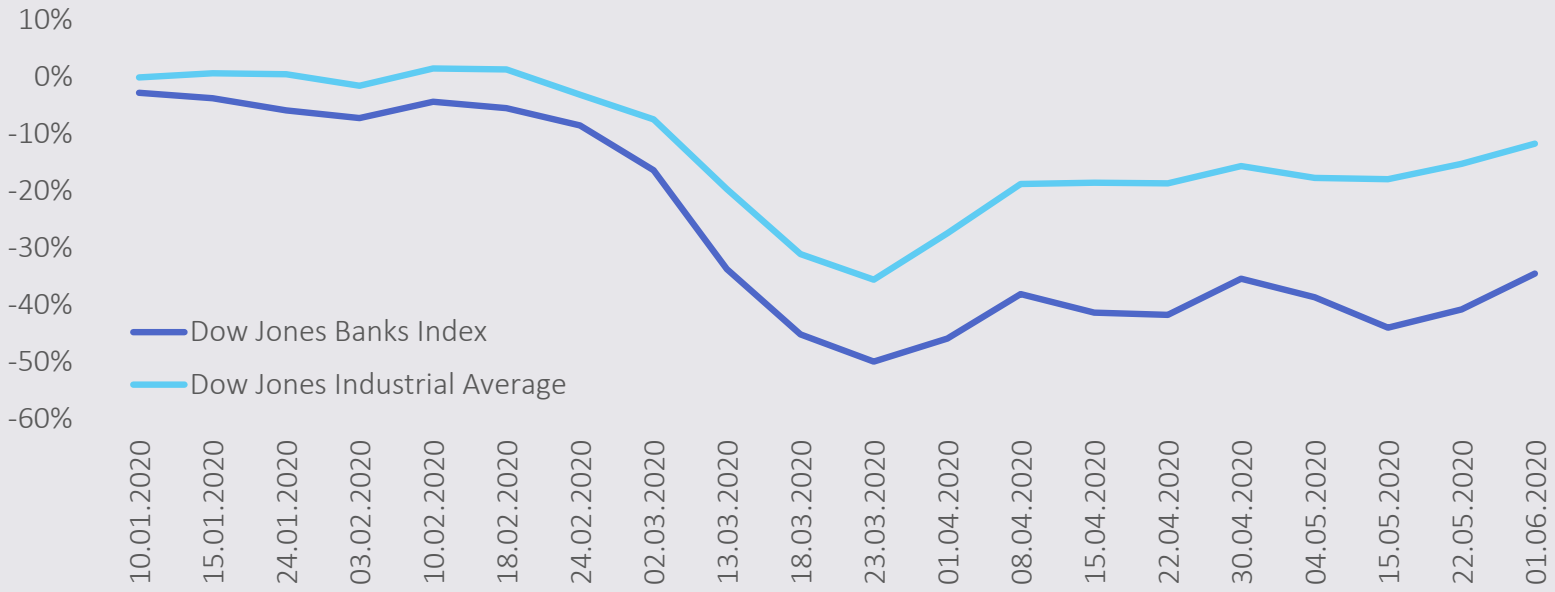
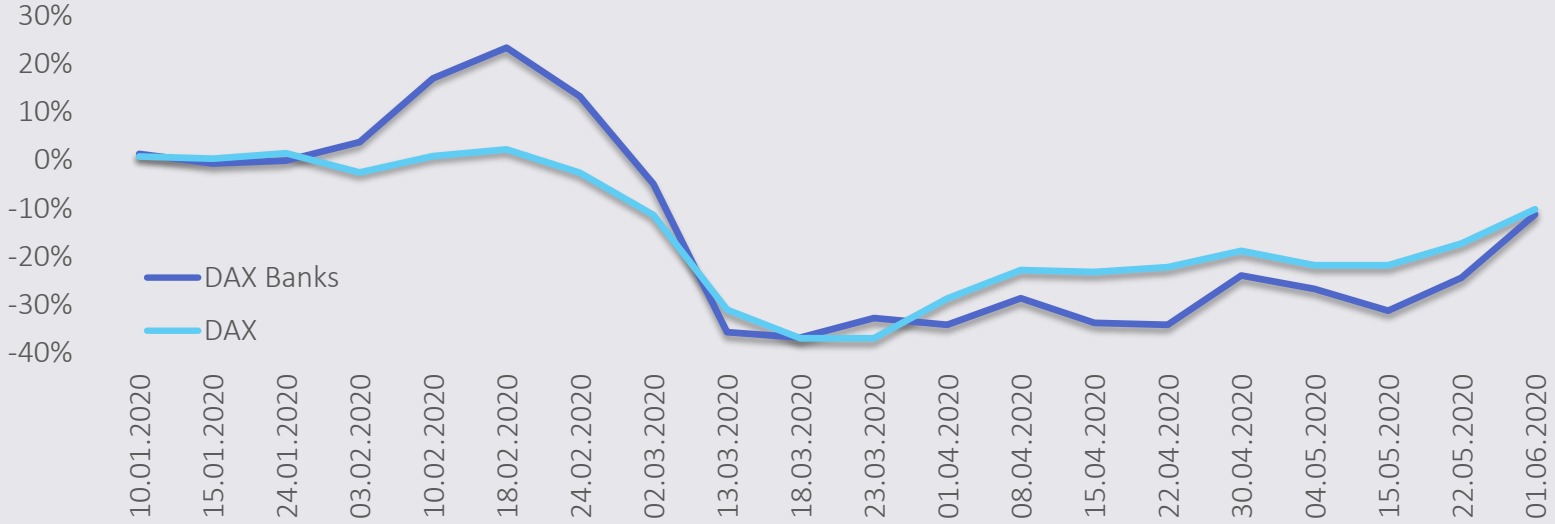
International context





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The American banking sector has been severely affected by the COVID-19 coronavirus pandemic.

Unlike the banking industry in Europe, the stock prices of banks listed on US stock exchanges are much more prone to economic fluctuations, reacting much stronger to crises. While in Germany bank share prices during the pandemic fell by 37% on average, in the USA they dropped by as much as 50%. Although the decline has been reversed, the prices are still far from their pre-pandemic values.

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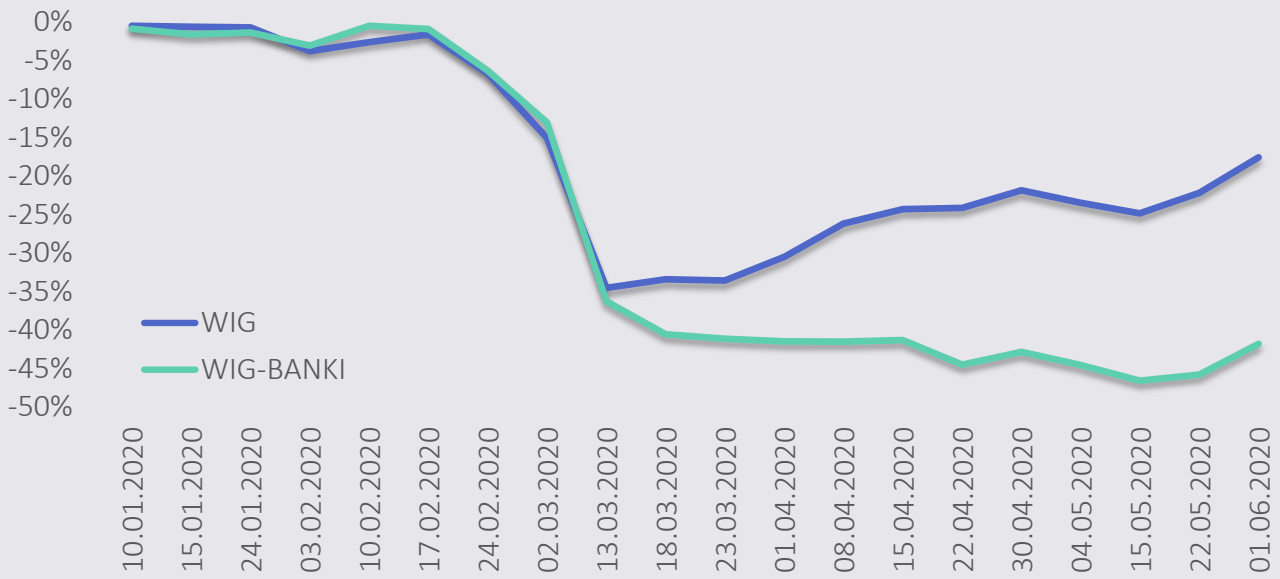
Banking sector in Poland

Current values of sector indices show that banks in Poland have been extremely affected by the coronavirus pandemic. The WIG-BANKI index has not yet begun to recover.

Initially, the index for banks reacted identically to the main index. The situation changed in mid-March, when companies from the main index started to recover. At the same time, the bank index was deepening its decline, to reach 45% below this year's initial value in mid-May.

The deepening crisis in the banking sector is also reported by the National Bank of Poland (NBP), which notes a growing risk of non-repayment of loans and a decrease in the number of loans granted, with loans being one of the most important sources of income for banks.



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Potential causes of the banking sector crisis in Poland

A sharp increase in the aversion of banks to granting credits and of borrowers to incurring new liabilities is one of the basic reasons for the continuing banking sector crisis in Poland. The current heavy credit restrictions have also weakened banks significantly.

Another problem is the growing risk of mass insolvency among businesses, which would have a direct impact on the financial result of banks. It may be expected that banks will become more active and the credit restrictions will be gradually relaxed as the economy continues to thaw out.

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Szymon Balcerzak

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The Polish banking index remains down.

Investors recognize the growing risk of client insolvency and the current restrictive credit policy. Taking specific anti-crisis actions by banks or easing the credit granting restrictions will facilitate the recovery process. Further delays may aggravate the crisis in the sector.

Investment banking

A downturn in the valuation of companies is also observed in the **investment banking sector** which usually suffers heavy losses in times of economic slowdown and crises.

The chart below presents the listings of selected investment banks compared to the valuations of primary indices of stock exchanges in which the banks are listed. As can be seen, a downturn in the listings began in mid-February and lasted a month. In the second half of March, the valuations of the analyzed banks began to edge upwards.

Goldman Sachs fares particularly well in this area, owing to its strong standing in securities trading, accounting for ca. 40% of its revenue. A strong position in financial instruments trading also allows Goldman Sachs to earn on stock exchange drops caused by economic downturns, which other investment banks, more dependent on the macroeconomic situation, cannot afford.

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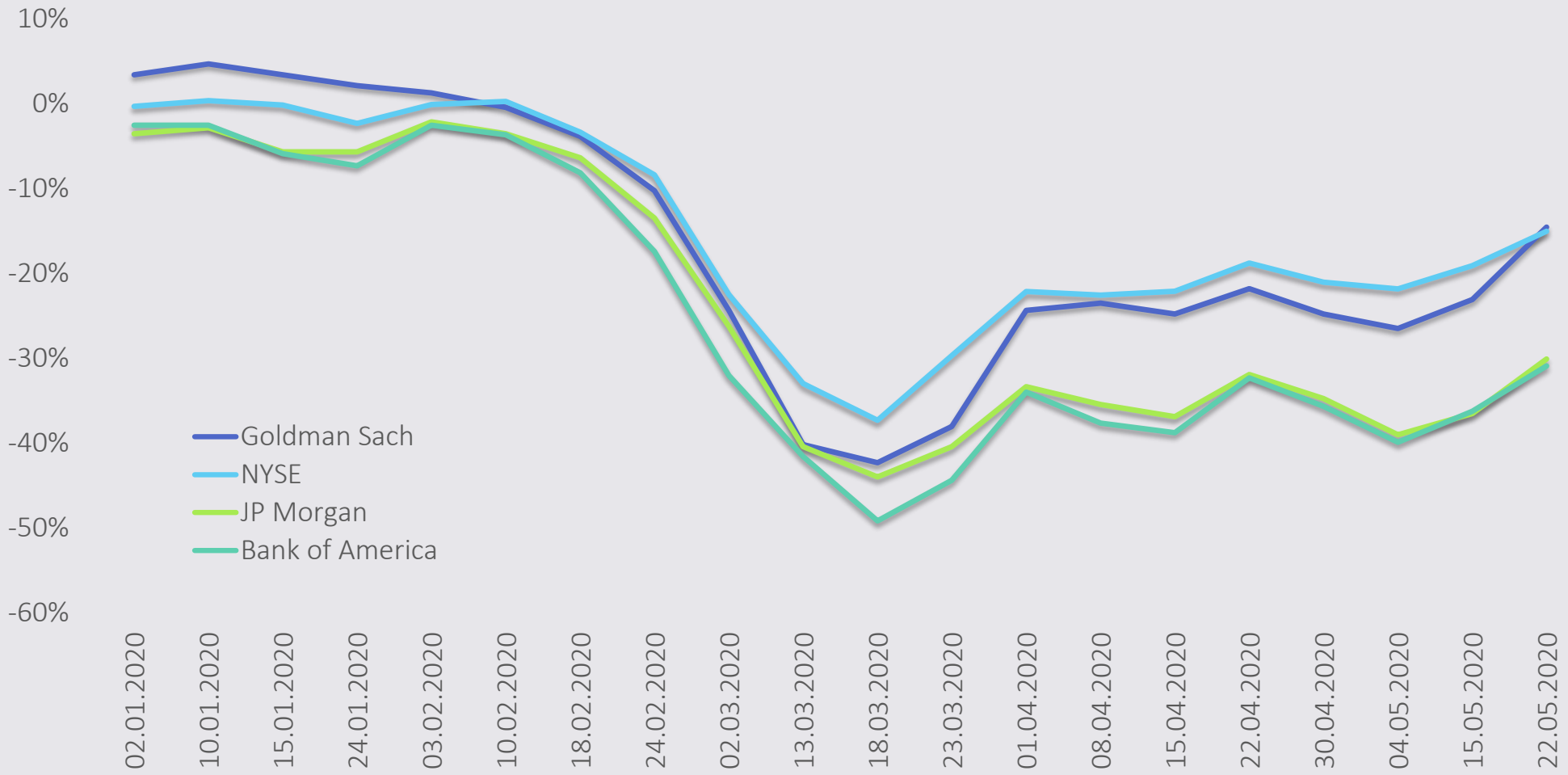
Investment banking



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Adrian Grzegorzewski

Analyst,
Transaction Advisory and Analysis

> The pandemic has also strongly affected major stakeholders in the investment banking sector.

Global investment banks are extremely sensitive to any global economic slowdowns and crises. The profitability of investment banking strongly depends on global economic turnover. The sudden freezing of trade has delivered a shock to the sector which will recover as the trade restrictions are relaxed.

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