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Press release | 29.07.2016

Stress test for banks

Taxpayers' money should not be used for bank bailouts

The European Banking Authority (EBA) will tonight publish the results of the 2016 stress test for banks. The EBA carries out the test to assess whether banks hold enough capital to see them through a further worsening of the banking crisis. The stress test results play a crucial role in possible bank rescues using state aid. Recapitalisation measures without full liability of creditors is only possible for banks that can be qualified as solvent under the stress test's base scenario. The Italian government has been negotiating with the European Commission for months about new state aid, which if it is agreed would effectively mean a new bank bailout for Italy using public money.

Greens/EFA economic and finance spokesperson **Sven Giegold** stated:

"The European Commission should not abuse the stress test results by giving the Italian government approval for bank bailouts using taxpayers' money. The European Commission must maintain its strong stance on bank creditors' liability. The stress test's weak design means it cannot be relied on for decisions on state aid and banking supervision.

The stress test's base scenario relies on overly optimistic assumptions about economic growth, especially for Italy, whilst the dramatic medium-term consequences of low interest rates are completely ignored. Short-term interest rates are assumed to be significantly above the current market level. Under these unrealistic conditions, the base scenario makes even ailing banks appear solvent. Compared to the stringent stress tests conducted by the American Federal Reserve Bank, the European stress test seems like a stroll in the park. The principle of liability enshrined in the European Bank Resolution and Recovery Directive must not be undermined at the first hint of danger. Failing banks should be restructured in line with European law. The Single Supervisory Board and the Single Resolution Board should not allow themselves to be misled by the stress test results but should instead rely on their own assessments, based on realistic assumptions, in determining the solvency of ailing banks.

Retail investors affected by the bail-in, and who hold a significant proportion of their property and retirement provision in risky banking bonds, must be entitled to rely on EU consumer rules on financial instruments. These investors should be compensated for any losses arising from poor advice.

Italy's banking crisis is not primarily a failure of the banks, but rather the result of applying failed economic policy throughout the Eurozone as a whole. The low interest rates are not mainly the consequence of ECB decisions but rather due to the failure of national governments to agree on a common economic and financial *policy for the Eurozone. What the economy desperately needs for sustainability, responsible growth and higher interest rates is investment in, among others, schools and universities, digital infrastructure and renewable energies.*

Let's hope that it wasn't a deliberate choice of the European Banking Authority to publish the results on a Friday evening during the summer holidays in order to quietly open the door to further bank bailouts..."

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Sven Giegold

Member

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