Press release | 24.07.2010

Stress test

EU stress test won't help to build confidence nor to address underlying weakness of the EU banking system

Commenting on the disclosure of the stress tests of the EU banking system, **Sven Giegold,** coordinator of the Greens/EFA in the Economic and Monetary Affairs Committee of the EU Parliament said:

"As the purpose of the stress test exercise is to increase transparency and bolster confidence, we have definitely started on the wrong foot.

"The test involved macroeconomic and sovereign risk assumptions over 2010 and 2011 which are rather complacent and prone to distrust.

"For the whole European Union (EU27) the benchmark scenario assumes a +1.0% growth of GDP in 2010 and +1.7% in 2011, whereas under a scenario of high stress the GDP would not grow in 2010 and would decline by -0.4% in 2011. This is a lot milder than the last recession. Concerning sovereign risk the assumptions of the stress tests impute moderate sovereign debt discounts. The impact of those haircuts is likely to be moderate as these haircuts are being applied mainly to bonds held in banks' trading books. But 90% of banks' sovereign debt exposure is not held in trading books but in banking books. A real default of any country in the Eurozone was not considered in the tests although this is what many market participants fear. Furthermore, the losses of the last crisis, which are still in books of banks, have not been written off.

"As the tests have been engineered through weak and unrealistic assumptions in order to allow most of the institutions to succeed and therefore to avoid further corrective action, they won't help to build confidence nor to address the underlying weakness of the EU banking system. Europe's banks continue to be undercapitalised.

"In the light of these facts over-optimistic comments are inappropriate. They might rather backfire as support for the lobbying effort of banks against new capital requirements. What we need is not a sop but a debt break for European banks."

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Sven Giegold

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