Abstract

We study to which extent fiscal measures related to COVID-19 have mitigated credit risk proxied by non-performing loans (NPLs) in selected European countries. In this respect, we control for the macroeconomic and bank-specific determinants of non-performing loans. We limit our empirical analysis to NPLs and fiscal measures that aimed at non-financial corporations. We utilize a quarterly panel dataset covering the period from 2019 to 2021. We further employ split according to sectors of economic activity and cover 423 sectors in 23 European countries. The difference GMM estimation for dynamic panel data is utilized. Our empirical analysis suggests that the following variables significantly affect NPL ratios: economic growth, employment, nominal effective exchange rate and return on equity. In the case of the fiscal measures, public guarantees and tax reliefs were found to have a statistically significant and negative effect on NPLs. This finding supports the notion that during the COVID-19 pandemic, loan guarantees and lower tax burdens helped businesses maintain liquidity and solvency, which resulted in reduction of NPL ratios. Contrary, loan moratoria were found to positively affect NPL ratios. There is mixed evidence regarding direct grants and no empirical evidence was found in the case of public loans, tax deferrals and other measures of fiscal nature.