

Nontechnical summaries in English

Changes in banks' rating assignments in response to the COVID-19 pandemic

Marcel Barmeier, Mario Haller

The COVID-19 pandemic and the resulting economic uncertainty made it more difficult for banks to adequately assess the creditworthiness of their debtors. In this study, we analyze how the assignments of internal ratings by Austrian banks changed during the pandemic. To this end, we combine data on debtors' probabilities of default with information on beneficiaries of COVID-19 support measures. We show that banks in Austria reacted to the first waves of the pandemic with rating downgrades, which led to a deterioration in the overall rating structure of banks' debtors. Since the second half of 2021, banks have increasingly upgraded debtors' ratings, and the overall rating structure started to improve. We also see that borrowers that later received COVID-19 support had shown below-average creditworthiness already before the outbreak of the pandemic. Moreover, borrowers that received COVID-19 support were more affected by increases in probabilities of default and corresponding rating downgrades than the overall market for nonfinancial corporate debtors.