

# Lenders can withstand coronavirus recession, says Bank of England's Sam Woods

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Sam Woods says banks have “ample capacity” to increase lending once the lockdown ends

The Bank of England is testing commercial lenders to destruction to work out how deep a coronavirus recession they can withstand.



[Sam Woods](#), the deputy governor and chief executive of the Prudential Regulation Authority, said he was confident that high street banks were well-capitalised and would be able to lend into the real economy as the country opens up after the lockdown.

However, the scale of the predicted recession was deeper than anything that the Bank had stress-tested the commercial banks against, so it wanted to work out their breaking point.

“There is of course some limit at which you get beyond what we’ve provided for,” he told MPs on the Treasury select committee. “We are doing work to find out where do you hit that point. My guess is it’s some way out.”

The most recent stress test, which the banks all passed, presumed an economic contraction of 4.7 per cent. This week, the Office for Budget Responsibility set out a scenario where the economy shrank by 13 per cent for the full year. Mr Woods said that although the OBR scenario was different to the stress test, it was “not obvious that it is worse”.

The Bank assumed 9.2 per cent unemployment, similar to the OBR's 10 per cent figure, and both included large asset price falls. It is unemployment and asset prices that raise solvency issues for banks.

He added: "We go into this with a well-capitalised banking sector." Asked if they had capacity to increase lending when companies needed it once the lockdown ended, Mr Woods said: "They have ample capacity in our view."

Mr Woods also revealed that large businesses had drawn on the Bank's commercial paper facility, the Covid corporate financing facility, for £7.6 billion of working capital. Big companies also had "stockpiled tens of billions of pounds" by drawing down existing credit lines and putting it on deposit in case it was needed. "You might think of it as hoarding cash," Sarah Breeden, an executive director at the Bank, said.

Mr Woods and Chris Woolard, interim chief executive of the Financial Conduct Authority, said that the banks were "not taking on undue risk" by lending to small companies through the state-backed business interruption loan scheme.