More than $150 billion has been wiped off the combined market value of Australia's four biggest banks since the sharemarket's high in February, as investors grapple with the bleak yet highly uncertain outlook created by coronavirus.

Now the lenders have released their own estimates of the financial hit that awaits them as many households and businesses struggle to repay their loans. ***lowestinterestrates.com.au special owner occupied solution home loans australia***

Some of the country's top analysts believe it is only the beginning of the pain for these financial giants.

The major banks' profits have been hit hard by COVID-19, as lenders brace for bad debts.

In a dramatic round of bank results over recent weeks, Commonwealth Bank, Westpac, National Australia Bank and ANZ Bank pencilled in almost $5 billion in provisions for bad and doubtful debts caused by the pandemic.

The bad debt charges drove a 45 per cent decline in the big four's combined half-year profit to $6.8 billion, says UBS, as lenders prepared for a recession. Westpac and ANZ Bank also suspended their dividends.

Yet among experienced bank-watchers and investors, a critical question is whether these charges are merely the beginning of the hit to the banks' bottom lines. The last time Australian banks endured a crisis anything like this was the 2008 global financial crisis, so that is the benchmark against which many are comparing the pandemic.

Jefferies' veteran banking analyst Brian Johnson says that although the GFC was a true banking crisis, the pandemic could actually lead to much higher bad debts. He says that during the GFC the bad debts mainly came from large companies that couldn't refinance, such as property groups. The current risks involve households — which make up a much larger share of banks' loan books.

"This time around we’ve got what may well be a lasting employment shock against a backdrop where households are highly leveraged," Johnson says.

In an attempt to keep households and businesses afloat during the shutdown, banks have hit the pause button on repayments for six months on 392,000 home loans and more than 170,000 business loans. Johnson says the picture won't be clear until October when these repayment holidays end and the government removes wage subsidies, but he expects higher bad debt charges. “I still think there’s more pain to come,” he says.

UBS analyst Jonathan Mott also has his doubts about the level of provisioning. He points out the $5 billion in COVID-19 provisions taken by the major banks is 0.12 per cent of the lenders' $4.1 trillion in total credit exposures, arguing these charges would be inadequate for any economic scenario except a "V-shaped" recovery.

PM Capital portfolio manager Uday Cheruvu also expects more bad debts, as the lenders move from high-level economic modelling to sifting through which deferred loans cannot be repaid. "To me it’s just the first act, we know it’s not done," Cheruvu says. Yet given how far bank share prices have fallen in recent months, he believes the lenders look better from an investment perspective. "On a risk-reward basis, the banks definitely look more attractive now than they did three months ago."

Executive chairman of Ausbil Investment Management Paul Xiradis has also struck a more optimistic tone recently, arguing banks have traded at attractive prices during the pandemic and saying they are in better shape than when they went into the GFC.

For investors trying to make sense of it all, the past few weeks should provide a blunt reminder that banks are highly cyclical businesses, which inevitably take a big hit when the economy tanks.

Westpac CEO Peter King: "When the economy has a downturn, we will struggle a little bit."

As Westpac chief executive Peter King said in an interview earlier this month: "The way I would think about the success of the bank is we’re very linked with the economic outcomes. So if the economy goes well, [https://en.search.wordpress.com/?src=organic&q=refinance home loan australia](https://en.search.wordpress.com/?src=organic&q=refinance%20home%20loan%20australia) the bank normally does well. When the economy has a downturn, we will struggle a little bit, and that’s because we get higher levels of impairment charges."

So, what do the bank results tell us about the economy's outlook?

While the banks are bracing for a recession, they also stressed the outlook was highly uncertain, with each lender publishing various scenarios for how things might pan out.

These range from the Reserve Bank forecast for growth to contract by 6 per cent this financial year and rise 6 per cent next year, to a much more protracted recession continuing into 2021 and causing house prices to tumble by up to a third.

Westpac was the latest big financial institution to suspend a decision on its dividend on Monday.

Coronavirus pandemic

Australian investors facing $26b hit as blue chips slash dividends

Investors are poring over data week by week to figure out which scenario looks most likely because that will influence how severe the hit is on banking profits.

AMP Capital Australian equities portfolio manager Dermot Ryan says he believes the banks have been prudent in their provisioning, but our ability to restart the economy will be crucial. "Their net profits are down, but they are holding back these profits as retained earnings to build up their capital base," Ryan says.

Against this backdrop of building up capital, he says it's clear the era of big bank dividends is over for the short to medium-term. Markets will remain focused on how many of those deferred loans cannot be repaid, which will in turn be driven by how well the economy can emerge from its enforced hibernation.

The challenge facing the economy should not be underestimated, as shown by this week's record of almost 600,000 people leaving the labour force in April alone. But bank shareholders will be hoping Australia's economy can pull off another GFC-style great escape.

"If we can be another poster child in how to reopen the economy in the same way as we've been in containing the virus, then there’s good upside across the market," Ryan says.