[Opening remarks by Vice-President Dombrovskis on NPL Progress Report]

Good morning,

Today, the European Commission has adopted a Communication on the progress made in reducing levels of non-performing loans in EU banks. This is part of our ongoing work to reduce risks in the banking sector and complete the Banking Union.

Before I turn to the Communication, let me take this opportunity to look ahead to the year 2018.

This will be the year to take important decisions on **strengthening the euro area**.

For the financial side of my portfolio, I am hopeful that we can reach the agreements needed to complete the Banking Union. Like last year, this will remain at the top of my agenda.

Deepening the EMU also means setting up a genuine Capital Markets Union in Europe.

Brexit should motivate us to redouble our efforts. In March, we will put forward a whole package of new initiatives.

This will also be the year to lay the foundations for **the future of Europe's financial sector**.

In March, we will present an ambitious Action Plan for Europe to affirm its leadership in sustainable finance. To secure the transition to the low-carbon economy, we need the financial sector fully on board.

We will also present our first ever EU Action Plan for the Fintech sector. The two strategies will soon be followed by first legislative proposals.

Finally, with regard to **Brexit,** I will pay particular attention that market participants are prepared and that financial stability issues are being addressed.

Let me now come back to today's Communication.

One important part of the risk reduction effort in the Banking Union is to reduce levels of non-performing loans, or NPLs.

These loans are a legacy of the crisis, and they are unevenly distributed across the Banking Union countries.

High levels of NPLs constrain banks' capacity to make fresh loans to support our economy, and they can be a source of vulnerability.

Today's report shows that we are making progress: during the last three years, the share of non-performing loans in the EU had been reduced by one third. This corresponds to a € 300 billion reduction.

In the latest figures, as of mid-2017, the NPL ratio stands at 4.6% .

We have also seen important progress in Member States with initially high rates of non-performing loans. For example, in Italy, the ratio of non–performing loans has come down by almost a quarter in only 12 months.

Banks and Member States must continue working to accelerate this positive trend.

We are supporting this work at European level, and some actions have already been implemented.

For example, the European Banking Authority has created templates to make data more comparable – this is important for promoting NPL markets.

In March, the Commission will present a package of proposals to help banks manage NPLs and prevent their accumulation in the future.

The package will focus on:

- requiring banks to put sufficient means aside to cover losses if new loans become non-performing,
- tackling delays in debt recovery,
- opening up secondary markets,
- and clarifying – with a blueprint – how EU countries can set up national asset management companies if they so wish.

Today's report tells us that the sun is out and the fog is lifting: the EU is now making significant headway in tackling non-performing loans.

We will continue our efforts to ensure that we stay on track and make high levels of NPLs a thing of the past.

Daily News 18 / 01 / 2018

VAT: More flexibility on VAT rates, less red tape for small businesses

The European Commission has today proposed new rules to give Member States more flexibility to set Value Added Tax (VAT) rates and to create a better tax environment to help SMEs flourish. Today's proposals are the final steps of the Commission's overhaul of VAT rules, with the creation of a single EU VAT area to dramatically reduce the €50 billion lost to VAT fraud each year in the EU, while supporting business and securing government revenues. The EU's common VAT rules, agreed by all Member States in 1992, are out of date and too restrictive. They allow Member States to apply reduced VAT rates to only a handful of sectors and products. At the same time, EU countries consider VAT rates as a useful instrument to pursue some of their political objectives. The Commission is now making good on its pledge to give Member States more autonomy on rates. Countries will be on a more equal footing when it comes to some existing exceptions to the rules, known as VAT derogations. The Commission is today also addressing the problem of smaller companies suffering from disproportionate VAT compliance costs. A full press release, MEMO and factsheets (on rates and SMEs) can be found online. *(For more information: Vanessa Mock – Tel.: +32 229 56194; Patrick McCullough – Tel.: +32 229 87183)*

Banking Union: First Progress Report on the tackling of non-performing loans to support the risk-reduction agenda

The European Commission has welcomed the headway made in tackling non-performing loans (NPLs) in the EU as part of ongoing work at the national and EU level to reduce remaining risks in parts of the European banking sector. In its First Progress Report since the Finance Ministers agreed an Action Plan on reducing non-performing loans (NPLs), the Commission highlights the further improvement in NPL ratios and forthcoming measures to bring NPL stocks down further. Reducing NPLs is important for the smooth functioning of the Banking Union and the Capital Markets Union, and for a stable and integrated financial system in the EU. Addressing high stocks of NPLs and preventing their possible future accumulation is essential to strengthen and cement economic growth in Europe. Households and companies depend on a strong and crisis-proof financial sector to get financing. While individual banks and Member States are in the driving seat when it comes to tackling their stocks of NPLs, there is a clear EU dimension given the potential spill-over effects to the EU economy as a whole. A full press release, MEMO and factsheet can be found online. *(For more information: Vanessa Mock – Tel.: +32 229 56194; Letizia Lupini – Tel.: +32 229 51958)*

Future of Europe: President Juncker appoints members to Task Force on Subsidiarity and Proportionality

Today, European Commission President Jean-Claude **Juncker** appointed six members to the 'Task Force on Subsidiarity, Proportionality and "Doing Less More Efficiently"' under the Chairmanship of First Vice-President Frans **Timmermans**. The Task Force will identify policy areas where work could be devolved or definitely returned to Member States, as well as ways to better involve regional and local authorities in EU policy making and delivery. President **Juncker** said: *"The European Commission must be big on the big things, and act only where it can achieve better results than Member States acting alone. This was my message when I was campaigning to become President of this Institution and it was the message delivered by the leaders of the EU27 in the Rome Declaration in March 2017. The new Subsidiarity and Proportionality Task Force will help us to decide which powers can be better* *exercised at a national or local level, and respond to citizens' expectations to take care of the concerns that really matter to them.*" First Vice-President **Timmermans** added: *"This Commission has really pushed better regulation so that we are ambitious where we must be, and modest wherever we can be. We do this on the basis of the latest evidence and broad public consultation. We need to continue this work and explore where the EU can really add value more efficiently but also empower Member States to do all that they can do better themselves. This Task Force will do exactly that."* The members of the Task Force are all politicians: Toomas Vitsut, Reinhold Lopatka, Kristian Vigenin, Karl-Heinz Lambertz, Michael Schneider and François Decoster. The Task Force will meet for the first time before the end of January and present its report by 15 July. The creation of the Task Force was most recently welcomed by Irish Prime Minister Leo Varadkar in a debate on the Future of Europe in the European Parliament on Tuesday 17 January.A full press release can be found online. *(For more information: Mina Andreeva – Tel.: +32 229 91382; Tim McPhie – Tel.: +32 229 58602)*

Launch of EU-China Tourism Year 2018

Tomorrow, and following the announcement made by Commission President Jean-Claude **Juncker** and the Chinese Premier Li Keqiang in July 2016, the EU-China Tourism Year (ECTY) will be launched at the Doge's Palace in Venice. This initiative provides a unique opportunity to increase the number of visits, promote sustainable tourism, stimulate investment opportunities for Europe and China, improve air connectivity and underpin the ongoing negotiations on EU-China visa facilitation. The year will be opened by the Commissioner for Internal Market, Industry, Entrepreneurship and SMEs, Elżbieta **Bieńkowska**, European Parliament President Antonio Tajani, the Bulgarian Minister of Tourism representing the Presidency of the Council of the European Union, Nikolina Angelkova, the Italian Minister of Cultural Heritage and Activities and Tourism, Dario Franceschini, the Vice-Chairman of the CPPCC National Committee, Mr Qi Xuchun, and the Vice-Chairman of the China National Tourism Administration, Du Jiang. The EU-China Tourism Year will consist of a number of cooperative marketing campaigns funded through public-private partnerships, business summits, and business-to-business meetings for tourism operators funded by the COSME programme. On the EU side, the aim is to lead to an annual increase of 10% of Chinese visitors, representing at least €1 billion each year for the EU tourism industry, and an estimate of 200 partnership agreements between EU and Chinese companies. The ECTY is a concrete manifestation of EU cultural diplomacy in the framework of the EU-China strategic partnership. The initiative is also in line with the EU Strategy on China adopted in 2016. It is a way to develop a better understanding between European and Chinese people, contributing to the "High Level EU-China People-to-People Dialogue" and the 2018 European Year of Cultural Heritage. The opening ceremony will be followed by the first EU-China Tourism Business Summit. After the launch event a press conference will take place. Media are invited to sign up here. Further information is available on the dedicated ECTY website. *(For more information: Lucía Caudet – Tel.: +32 229 56182; Victoria von Hammerstein – Tel.: +32 229 55040; Maud*

Noyon – Tel. +32 229-80379)

Competition: Commission welcomes new rules that benefit consumers by promoting more competition in processing of card payments

The European Commission has issued new requirements that ensure independence of payment card schemes and processing entities, to enhance competition in the card payment market. When a consumer pays with a card in a shop or online, the transaction needs to be processed for the payment to be transferred to the shop's bank account. This service is carried out by processing companies, which manage the necessary communication and IT processes for the payment to be finalised. Payment card schemes often provide their own services for the processing of payment transactions and therefore compete with many other independent companies that also provide the same processing services. Under the 2015 Interchange Fee Regulation card schemes must ensure the independence of their own processing activities from the rest of their operations. The new rules introduce detailed requirements concerning the separation of certain functions, which enter into effect on 7 February 2018. As a result of this separation, retailers will be able to choose the best processor for their card transactions, while consumers benefit from reduced processing costs in their daily payments in shops, restaurants, on-line or via a growing range of card-based mobile payment applications. Commissioner Margrethe **Vestager**, in charge of competition policy, said: *"Many consumers use payment cards every day in shops or online. The Interchange Fee Regulation has capped fees charged by the banks for these card payments, which are ultimately paid by consumers. The new rules will bring more competition to the processing of card payments, which should further reduce costs to the benefit of consumers and retailers*." A full press release is available in EN, DE, FR. *(For more information: Ricardo Cardoso – Tel.: +32 229 80100; Maria Sarantopoulou – Tel.: +32 229 13740)*

Mergers: Commission clears acquisition of Sport Zone and JDSH by JD, Balaiko and Sonae MC

The European Commission has approved, under the EU Merger Regulation, the acquisition of SDSR- Sports Division SR, S.A. ("Sport Zone") of Portugal by JD Sprinter Holdings 2010, SL ("JDSH") of Spain and the simultaneous acquisition of joint control of JDSH by JD Sports Fashion Plc ("JD") of the UK, Balaiko Firaja Invest, S. L ("Balaiko") of Spain and Sonae MC- Modelo Continente, SGPS, S.A. ("Sonae MC") of Portugal. Sport Zone and JDSH are active in the retail trade of sports goods in Portugal and Spain under the brands "Sport Zone" (in the case of Sport Zone) and "JD", "Sprinter", "Size?" and "Athlete's Foot". JD is active in the retail of sports apparel and footwear worldwide and also operates fitness centres in the UK. Balaiko is an investment vehicle company. Sonae MC is active in the retail and wholesale trade in food and non-food products as well as in the management of related real estate assets. The Commission concluded that the proposed acquisition would raise no competition concerns because the local horizontal overlaps between the companies' activities are moderate, the market shares increments are small, and the joint venture will face competition from the market leader and other players with a regional and national footprint both in Spain and in Portugal. The transaction was examined under the normal merger review procedure. More information is available on the Commission's competition website, in the public case register under the case number M.8710. *(For more information: Ricardo Cardoso – Tel.: +32 229 80100; Maria Sarantopoulou – Tel.: +32 229 13740)*

130 nouveaux bus électriques pour Varsovie grâce à la politique de Cohésion de l'UE

La Commission a adopté une décision allouant 41 millions d'euros du Fonds de Cohésion pour l'achat de 130 bus électriques pour le système de transport de la capitale polonaise. Chaque bus sera adapté aux personnes à mobilité réduite et équipé de l'air conditionné et d'un équipement audiovisuel d'information aux passagers. *"Ce nouvel investissement de l'Europe va améliorer très concrètement la qualité de vie à Varsovie,"* a commenté la Commissaire à la politique régionale Corina **Crețu**,*"Cela va réduire la congestion automobile, rendre l'air plus pur et offrir aux Varsoviens un mode de transport propre, rapide et confortable."* Les bus devraient être en circulation au début de 2021. *(Pour plus d'informations: Johannes Bahrke – Tel.: +32 229 58615; Sophie Dupin de Saint-Cyr – Tel.: +32 229 56169)*

Eurostat: Le prix des logements en hausse de 4,1% dans la zone euro

Le prix des logements, tel que mesuré par l'indice des prix des logements, a augmenté de 4,1% dans la zone euro et de 4,6% dans l'UE au troisième trimestre 2017 par rapport au même trimestre de l'année précédente. Ces données proviennent d'Eurostat, l'office statistique de l'Union européenne. Par rapport au deuxième trimestre 2017, les prix des logements ont progressé de 1,7% tant dans la zone euro que dans l'UE au troisième trimestre 2017. Un communiqué de presse est disponible ici. *(Pour plus d'informations: Johannes Bahrke – Tel.: +32 229 58615*; Juliana Dahl – Tel.: +32 229 59914)

ANNOUNCEMENTS

Future of EU finances – Commissioner Oettinger visits the Netherlands [updated on 18/01/2018 at 13:00]

Commissioner Günther H. **Oettinger,** in charge of Budget and Human Resources, is visiting the Netherlands on 18 January as part of his tour across EU Member States aimed at gathering views on the future of EU finances and the EU's multiannual budget post-2020. The Commissioner will meet Prime Minister Rutte, Minister for Finance, Mr Wopke Hoekstra and Director General for European Cooperation, Mr Matthijs van der Plas. Commissioner **Oettinger will also give a speech** at the Parliament's Standing Committee for EU Affairs and Finance and discuss the challenges ahead of the next multiannual budget with its members. Commissioner **Oettinger** will also speak at Leiden University and exchange views with students at a Citizens' Dialogue. The meetings in the

Netherlands are part of the Commissioner's broad consultation with all interested parties on the future of EU finances – #EUbudget. The Commission kicked off this debate on 28 June 2017 with the publication of its Reflection paper on the future of EU finances, available in all EU languages (in Dutch here). Stakeholders' views will be taken into account when preparing the next MFF, to be presented in May 2018. *(For more information: Alexander Winterstein – Tel.: +32 229 93265; Maria Tsoni – Tel.: +32 229 90526)*

Commissioners Andriukatis and Hogan participate in the International Green Week in Berlin on 18-20 January

Commissioners Vytenis **Andriukaitis** and Phil **Hogan**, respectively in charge of health and food safety and of agriculture, will both be attending the International Green Week in Berlin which gathers over 1,500 exhibitors from the food, agriculture and gardening sectors. They will hold a press conference at 16:00 on Thursday 18 January in the Green Week's premises before the event's official opening. While in Berlin, Commissioners **Andriukaitis** and **Hogan** will hold a Citizens' Dialogue on Friday on the theme of "From farm to fork –the future of European food production and consumption." Questions such as "how to make European food production and food consumption more sustainable? How to make European agriculture fit for the challenges of the next decade?" will be discussed in an open dialogue with participants. The event will be livestreamed here. On that same day, Commissioner Andriukaitis also participate in a High Level Panel on Animal health and Welfare focusing on the future of globally diversified livestock production and in parallel Commissioner Hogan will participate in a High Level Panel on the future of sustainable, responsible and efficient livestock production. Also whilst in Berlin, Commissioner Hogan will meet the German farm unions and Länder Ministers and will hold a series of bilateral meetings with visiting agriculture Ministers. On Saturday, both Commissioners will attend 10th Berlin Agriculture Ministers Conference. The European Commission is present throughout the duration of the International Green Week 2018 with a stand on the theme of sustainable food for a healthy lifestyle. Visitors will receive information about the Common Agricultural Policy, digital innovations in agriculture and rural areas, the EU's work on food safety and nutrition labelling and research and measures to reduce food waste. *(For more information: Anca Paduraru – Tel: +32 229 91269; Aikaterini Apostola – Tel.: +32 229 87624; Daniel Rosario – Tel + 32 229 56185; Clémence Robin – Tel.: +32 229 52509)*

Commissioner Gabriel in Slovenia to discuss Digital Single Market

Commissioner for the Digital Economy and Society Mariya **Gabriel** is in Ljubljana, Slovenia today. She will discuss the progress made regarding the Digital Single Market strategy as well as the most recent EU digital initiatives to build European supercomputers and to tackle the spread of disinformation online. This morning she met with Members of the Slovenian Parliament. Their exchanges focussed, among other things, on the development of public e-services. Commissioner **Gabriel** took part in aCitizens' Dialogue at the University of Ljubljana, with Boris Koprivnikar, Minister of Public Administration, Vice-President of the Government for Slovenia responsible for the digital transformation, where the focus was also on the Digital Single Market. The debate touched upon the importance of digital skills, the transformation of the European labour market, women in tech, and research and innovation. The Commissioner emphasised in her first Citizens' Dialogue: "*Europe's digital revolution should be inspired by people: students, workers, entrepreneurs, researchers, women and men of all ages, who want to lead secure and stable lives in an inclusive Europe that protects its citizens and defends the democratic values and principles that we hold so dear*." The event can be re-watched here. This afternoon, the Commissioner will hold a working lunch with Minister Koprivnikar and meet with BTC Company as well as with this year's winner of EU Code Week in Slovenia, Alja Isaković. The Commissioner will highlight the importance of women in tech and encouraging more girls and women to study ICT and work in digital jobs across all sectors. *(For more information: Nathalie Vandystadt – Tel.: +32 229 67083; Inga Höglund – Tel.: +32 229 50698)*

Upcoming events of the European Commission (ex-Top News)

Banking Union: First Progress Report on the tackling of non-performing loans to support the risk-reduction agenda

In its First Progress Report since the Finance Ministers agreed an Action Plan on reducing non-performing loans (NPLs), the Commission highlights the further improvement in NPL ratios and forthcoming measures to bring NPL stocks down further.

Reducing NPLs is important for the smooth functioning of the Banking Union and the Capital Markets Union, and for a stable and integrated financial system in the EU. Addressing high stocks of NPLs and preventing their possible future accumulation is essential to strengthen and cement economic growth in Europe. Households and companies depend on a strong and crisis-proof financial sector to get financing. While individual banks and Member States are in the driving seat when it comes to tackling their stocks of NPLs, there is a clear EU dimension given the potential spill-over effects to the EU economy as a whole.

Valdis **Dombrovskis**, Vice-President for Financial Stability, Financial Services and Capital Markets Union said: *"Getting the level of NPLs down is* *essential to reducing risks in the banking sector and completing the Banking Union. Concerted efforts by banks, supervisors, Member States and Commission have already borne fruits. But we need to forge ahead to further bring down NPL levels. We want banks in all EU countries to regain their full capacity to lend to companies and households while preventing build-up of new bad loans."*

Key findings

Today's First Progress Report, which takes the form of a Communication and an accompanying Staff Working Document, highlights recent developments of NPLs both in the EU as a whole and within individual Member States. It shows that the positive trend of falling NPL ratios and growing coverage ratios has solidified and continued into the second half of 2017.

Furthermore:

- NPL ratios have been falling in nearly all Member States, although the situation differs significantly across Member States. The overall NPL ratio in the EU declined to 4.6% (Q2 2017), down by roughly one percentage point year-on-year, and by a third since Q4 2014.
- The data demonstrates that risk reduction is taking hold in the European banking system, and will support progress towards completing Banking Union, which should occur by risk reduction and risk sharing in parallel.
- The report also shows that the EU is on track with implementing the Council's Action Plan.

In spring, the Commission will propose a comprehensive package of measures to reduce the level of existing NPLs and to prevent the build-up of NPLs in the future. The package will focus on four areas: (i) supervisory actions, (ii) reform of restructuring, insolvency and debt recovery frameworks, (iii) development of secondary markets for distressed assets, and (iv) fostering restructuring of the banking system. Action in these areas should be at national level and at Union level where appropriate.

The Commission also calls on Member States and the European Parliament to rapidly agree on the Commission's proposal on business insolvency. Proposed in November 2016, this measure would help companies in financial difficulty to restructure early on so as to prevent bankruptcy, leading to more efficient insolvency procedures in the EU.

Background

As NPLs are one of the key remaining legacy risks in Europe's banking system, the Commission proposed in October 2017 to make NPL reduction measures a more prominent part of the process of completing Banking Union by sharing and reducing risk in parallel, which has been welcomed in discussions with the European Parliament and the Council in recent months.

While the average ratio of NPLs has decreased by one-third since 2014 and is on a steady downward trend, remaining high stocks of NPLs can weigh on the economic growth of concerned countries as they reduce banks' profitability and capacity to lend to households and businesses. The primary responsibility for tackling high NPL ratios rests with the affected banks and Member States. However, in a monetary union where the economies of the member countries are interlinked and can create spill-over effects, there is also a clear EU interest in reducing current NPL ratios. The Commission has consistently raised this matter with the countries concerned in the context of the EU's economic policy coordination cycle – the European Semester.

The Council adopted, in July 2017, an "Action Plan to Tackle Non-Performing Loans in Europe". This Action Plan calls upon various institutions – including the Commission – to take appropriate measures to further address the challenges of high NPL ratios in Europe. The Council agreed to take stock of the evolution of NPLs in the Union on the basis of a report from the Commission. The Commission therefore announced, in its Communication on Completing the Banking Union of 11 October 2017, that it would work towards a comprehensive package on tackling NPLs in Europe. In addition, the Commission's EMU package of 6 December 2017 presented a roadmap and concrete proposals for the deepening of Europe's Economic and Monetary Union.

More information:

MEMO

Factsheet

Staff Working Document and Communication

Future of Europe: President Juncker appoints members to Task Force on Subsidiarity and Proportionality

The Task Force will work under the Chairmanship of First Vice-President Frans **Timmermans** and will report to the President by 15 July 2018. Scenario 4 in the Commission's White Paper on the Future of Europe – "Doing less more efficiently – foresees that the European Union focuses on delivering more and faster in selected policy areas such as securing our external borders through the European Border and Coast Guard or in pooling defence capabilities, while doing less elsewhere, such as in regional development. The Subsidiarity and Proportionality Task Force will identify policy areas where work could be devolved or definitely returned to Member States, as well as ways to better involve regional and local authorities in EU policy making and delivery.

President **Juncker** said: *"The European Commission must be big on the big things, and act only where it can achieve better results than Member States acting alone. This was my message when I was campaigning to become President of this Institution and it was the message delivered by the leaders of the EU27 in the Rome Declaration in March 2017. The new Subsidiarity and Proportionality Task Force will help us to decide which powers can be better exercised at a national or local level, and respond to citizens expectations to take care of the concerns that really matter to them."*

First Vice-President **Timmermans** added: *"This Commission has really pushed better regulation so that we are ambitious where we must be, and modest wherever we can be. We do this on the basis of the latest evidence and broad public consultation. We need to continue this work and explore where the EU can really add value more efficiently but also empower Member States to do all that they can do better themselves. This Task Force will do exactly that."*

The members of the Task Force are all politicians. They have been nominated by the Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union (COSAC) and by the Committee of the Regions. They are: (nominees from COSAC) Toomas Vitsut (Member of the Parliament of Estonia), Reinhold Lopatka (Member of the Parliament of Austria) and Kristian Vigenin (Member of the Parliament of Bulgaria) and (nominees from the Committee of the Regions) Karl-Heinz Lambertz (President), Michael Schneider and François Decoster. The European Parliament was invited to nominate three members, but has not yet done so. The Task Force will meet for the first time before the end of January and present its report by 15 July.

President Juncker's decision to establish this Task Force follows the spirit of the Rome Declaration of March 2017 where the EU27 leaders stated "*We want the Union to be big on big issues and small on small ones. We will promote a democratic, effective and transparent decision-making process and better delivery.*" This approach means concentrating our energies on and doing more in areas with the biggest added-value for Europe's citizens – such as security, external border management or defence – while doing less in others. The creation of the Task Force was most recently welcomed by Irish Prime Minister Leo Varadkar in a debate on the Future of Europe in the European Parliament on Tuesday 17 January. He also voiced support for devolving powers back to Member States in a Citizens' Dialogue in November 2017.

Background

In his State of the Union Address on 13 September 2017, President Juncker presented his vision for Europe in 2025, based on the debate launched by the White Paper on the Future of Europe. One of the Scenarios presented – Scenario 4 – was "Doing Less More Efficiently" under which the European Union should step up its work in certain fields while stopping to act or doing less in domains where it is perceived as having more limited added value, or as being unable to deliver on its promises. The work of the Task Force will contribute to the further evolution of the European Union in the context of the Commission's Roadmap for developing a more united, stronger and more democratic Union ahead of the European Parliament elections and the EU27 Leaders' meeting in Sibiu (Romania) on 9 May 2019.

The Political Guidelines of President Juncker, presented on 15 July 2014, have bound the Commission to focus on 10 priority policy areas, shaping the work of the Institution for the past 3 years and ensuring that as much work as possible is left in the hands of Member States. The Commission further developed this concept in its White Paper on the Future of Europe on 1 March 2017, which presented 5 scenarios, including one entitled 'Doing Less More Efficiently'.

The **principles of subsidiarity and proportionality** are laid down in Article 5 of the Treaty on European Union. The subsidiarity principle aims to ensure that decisions are taken as closely as possible to the citizen and that the EU does not take action unless it is more effective than action taken at national, regional or local level. The proportionality principle limits the exercise of the EU's powers to what is necessary to achieve the objectives of the Treaties. As an example of the application of these principles under this Commission, state aid control under the Juncker Commission has already been largely re-delegated to national authorities, and 97% of all state aid measures are now in the hands of national, regional and local authorities.

For more information

Decision on appointment of members to the Task Force on Subsidiarity, Proportionality and "Doing Less More Efficiently"

Decision on the establishment of a Task Force on Subsidiarity, Proportionality and "Doing Less More Efficiently"

State of the Union Address 2017

White Paper on the Future of Europe

Political Guidelines of President Juncker

Progress in the Reduction of Non-Performing Loans in Europe

The Commission is presenting its First Progress Report on the Action Plan to tackle non-performing loans (NPLs) in Europe, which Finance Ministers agreed on in July 2017. In this context, the ECOFIN Council agreed to come back to the topic regularly – the first time after six months – to assess progress, based on the Commission’s stocktake.

Today’s progress report, which takes the form of a Communication and technical Staff Working Document, also provides an update on the Commission’s ongoing work to deliver on the elements of the ECOFIN Action Plan, for which it has direct responsibility. The Commission has pledged to put forward a comprehensive package of measures to tackle NPLs in the spring of 2018.

What are NPLs and who is responsible for reducing NPLs?

The term “non-performing loan” refers to loans where the borrower – either a company or a physical person – is not able to repay a bank loan, i.e. is unable to make scheduled payments to cover interest or capital reimbursements. When the payments are more than 90 days past due, or the loan is assessed as unlikely to be repaid by the borrower, it is classified as an NPL.

The inability of borrowers to pay back their loans was aggravated during the financial crisis and the subsequent recessions when more companies and citizens went bankrupt or faced continued payment difficulties. This was particularly acute in some Member States. As a consequence, many banks saw a build-up of NPLs on their books.

High stocks of such NPLs can weigh on a bank’s short- and longer-term performance in two ways:

- First, NPLs require higher levels of provisioning to cover incurred and expected losses. Such loan provisions reduce bank profitability and reduce the bank’s regulatory capital. In the most severe cases, the necessary accounting for NPLs can put in question the viability of a bank with potential implications for financial stability.

- Second, NPLs tie up significant amounts of a bank’s resources, both human and financial. This reduces the bank’s capacity to lend, including to small and medium-sized enterprises which rely on bank lending to a much greater extent than larger companies. This affects economic growth and job creation.

For these reasons, the EU has continuously stressed the urgency of addressing the risks related to NPLs. Tackling NPLs is primarily the responsibility of the affected banks and of Member States, which are and will remain competent for many of the required policy tools. At the same time, the NPL issue has a European dimension. Weak growth in some Member States, due to high levels of NPLs, might affect economic growth elsewhere in the EU. Investors’ perception of the value and soundness of all EU banks may stem from weak balance sheets in just some banks. So, national authorities and European institutions need to join forces to address high NPL ratios. This was recognised by Member States in the ECOFIN Action Plan.

NPLs are a legacy of the crisis. What has been done so far to tackle them?

Over the past years, the Commission has been working constructively with the concerned Member States to reduce banks' NPLs, including through the European Semester. Some Member States have already made great strides in cleaning up bank balance sheets since the crisis. It is important to build up on these efforts, consolidate the trend and prevent the build-up of new NPLs, with a comprehensive set of actions agreed at the ECOFIN that both European institutions and Member States.

What does the latest progress report show?

The data presented in the progress report shows that risk reduction is taking hold in the European banking system: in nearly all Member States, NPL ratios have been falling in recent years. This has been the result of stabilising economies in concert with various pro-active measures, including sales of NPL portfolios.

The report shows that the total volume of NPLs has continued its steady decline. The quality of banks' loans portfolios also continued to improve. The latest figures confirm the downward trend of the NPLs ratio, which decreased further to 4.6% (Q2 2017), down by roughly 1 percentage point year-on-year. As a result, the ratio reached its lowest level since Q4 2014. The provisioning ratio has also risen, amounting to 50.8% (Q2 2017).

Despite the ongoing downward trend, the total volume of NPLs remains high (€950 billion). NPL ratios are very uneven with the EU – ranging from 0.7% to 46.9% – and some countries are making only slow progress, which are a source of concern.

There are still impediments to further reductions. Among others, activity on secondary markets for NPLs is not yet sufficient to substantially contribute to NPL reduction efforts, notwithstanding the recently increasing volume of NPL sales. Moreover, debt restructuring, insolvency and debt recovery processes are still too slow and unpredictable in some cases.

With this objective in mind, the Commission already proposed, in November 2016, measures to help companies in financial difficulty to restructure early on so as to prevent bankruptcy. In order to tackle the remaining obstacles, the Commission is fully committed to deliver on the elements of the ECOFIN Action Plan for which it has direct responsibility.

What is the Commission going to do about NPLs?

In line with the ECOFIN Action Plan, the Commission announced in its Communication on Completing the Banking Union in October 2017, a comprehensive package for tackling high NPL ratios by spring 2018. Significant progress has already been made, and delivery of the package of measures – including 3 legislative proposals – is on track for spring 2018.

The package will consist of the following measures:

- A Blueprint for how national Asset Management Companies (AMCs) can be set up in compliance with existing EU banking and State aid rules by building on best practices learned from past experiences in Member States.

- Measures to further develop secondary markets for Non-Performing Loans, especially with the aim of removing undue impediments to loan servicing by third parties and the transfer of loans.

- Measures to enhance the protection of secured creditors by allowing them more efficient methods of value recovery from secured loans through Accelerated Extrajudicial Collateral Enforcement (AECE). This refers to an expedited and efficient out-of-court enforcement mechanism which enables secured lenders to recover value from collateral granted solely by companies and entrepreneurs to secure loans.

- Introduce statutory prudential backstops to prevent the risk of under-provisioning of NPLs. Such backstops, on newly originated loans that later turn non-performing, would amount to minimum levels of provisions and deductions from own funds that banks would be required to make to cover incurred and expected losses. In this context, the Commission will also consider introducing a common definition of non-performing exposures (NPE), in accordance with the one already used for supervisory reporting purposes.

- A way forward to foster the transparency on NPLs in Europe by improving the data availability and comparability as regards NPLs, and potentially supporting the development by market participants of NPL information platforms or credit registers.

What are Asset Management Companies (AMCs) and why do we need a European blueprint?

Experience in several Member States has demonstrated that national asset management companies (AMCs) are an effective tool to help banks clean up their balance sheets. Transferring bad loans from banks to an AMC allow viable banks to focus on their core task of lending and offering services to households and firms.

AMCs can be set up to deal with NPLs from individual banks or to manage bad loans from many banks in a Member State. An AMC can be privately or publicly owned and can receive various degrees of public support. Public support can only be given if it complies with European state aid and bank recovery and resolution rules.

AMCs can perform a useful role for society and contribute to the repair of the banks’ balance sheets. They can also take a pivotal role in selling NPLs to private investors by:

- improving information and transparency in the secondary market for NPLs; and
- encouraging new investors to enter the market, which is currently dominated by a few large buyers with sometimes significant pricing power.

By making use of the existing market experience, we need to develop a solution that Member States can implement in line with the EU legal framework. The ECOFIN Action Plan tasked the Commission with developing a blueprint on how to best devise national asset management companies (AMCs). The blueprint will set out best practices on how AMCs can be established and managed, drawing on the experience and expertise gathered in some Member States during the crisis.

Why do you want to develop secondary markets for NPLs? What obstacles are you targeting?

A functioning secondary market would allow banks to clean their balance sheets by selling NPLs. In the absence of such a market, banks are obliged to keep NPLs on their balance sheets until they are fully written off. This reduces their profitability and their capacity to lend to new customers.

Currently there are too few investors willing and able to buy NPLs relative to the large amount of NPLs on European banks' balance sheets. Market entry is difficult for new investors because the business of loan sales is complex and the relevant rules differ considerably across Member States. The Commission is therefore analysing how to facilitate access to this market.

There is also a need to review entry conditions for loan servicing firms. Usually, NPL investors do not ask the bank from which they bought the NPLs to continue administering and collecting the loans. Instead, they often delegate these activities to independent firms called loan servicers. A lack of loan servicers discourages NPL investors from entering the market. Therefore, entry conditions and conduct rules for loan servicers play a crucial role in developing a secondary market for NPLs.

Why are you going to propose European rules to enhance the ability of secured creditors to recover value from loans?

Enabling banks as secured creditors to recover value more swiftly from loans granted to companies and entrepreneurs is a priority action of the Mid-term Review of the Capital Markets Union Action Plan. Effective out-of-court enforcement mechanisms can help prevent the accumulation of NPLs, as they provide secured creditors with legal instruments to enforce their rights against collateral in a swift manner. However these solutions do not exist in all Member States. Recent work performed by the SSM shows that "the legal frameworks for collateral enforcement across the euro area Member States are divergent. One-third of those countries consider the topic as being a challenge for NPL resolution, largely due to the lack of a modern legal framework enabling timely out-of-court collateral enforcement".

Why are you proposing accelerated extrajudicial enforcement for creditors?

The purpose of a measure on an accelerated extrajudicial enforcement of collateral is to provide banks in all Member States with a swift and effective out-of-court mechanism to enforce secured loans against companies and entrepreneurs, subject to common agreement. This would complement and be consistent with the [2016 Commission proposal on preventative business restructuring and second chance](), which is now being discussed by the European Parliamend and Member States. Secured loans include loans granted by credit institutions to companies and entrepreneurs secured by mortgages, pledges and other comparable contractual or legal instruments (excluding natural persons, householders, consumers, non-professional borrowers).

An accelerated extrajudicial enforcement of collateral would strengthen the EU banking system and prevent the accumulation of NPLs on banks' balance sheets in the future. Convergence in enforcement of secured loans in the EU would increase lending to companies, in particular to small and medium-sized enterprises (SMEs) which depend on bank loans to a greater extent than larger corporates. It would improve the functioning of the Single Market by improving the competitiveness of EU banks and providing incentives for the provision of cross-border loans to companies.

Why are you working on introducing statutory prudential backstops against new NPLs? What would be their purpose and rationale?

The Commission is following up on the [ECOFIN Council conclusions](), which asked it to look into the possibility to amend EU legislation and introduce prudential backstops to address potential under-provisioning of new loans.

Insufficiently provisioned NPLs often pile up on banks' balance sheets, which in turn may cast doubt on the bank's future profitability, solvency and thus its long-term viability. Although average provisioning levels have recently increased in certain Member States with high NPL stocks, loss recognition is sometimes still too low and slow to effectively resolve NPLs. So called statutory prudential backstops against NPLs, arising from newly-originated loans, would set, for the future, common minimum levels for the amounts set aside by banks to cover incurred and expected losses on NPLs. This would put EU-wide brakes on new NPLs by ensuring sufficient loan loss coverage. It would be a prudential tool (under the so-called "Pillar 1", i.e. potential prudential deductions directly applicable to all banks under the Capital Requirements Regulation [CRR]). Banks would need to continue to recognise accounting provisions in line with their assessment and applicable accounting standards. Those provisions, including potential increases in provisions as a result of new and upcoming accounting standards for banks and the loans they extend (i.e. the International Financial Reporting Standard IFRS9), would be taken fully into account for the purposes of the prudential backstops. But without common prudential rules on provisioning for NPLs, loan loss coverage might vary across banks which essentially bear the same underlying risk. This can limit the comparability of capital ratios and undermine their reliance.

The purpose of statutory prudential backstops would be to prevent the build-up of future NPL stocks with insufficient loan loss coverage, thereby ensuring banks’ financial soundness.

Does the report find that the ECB already has tools to address the existing NPLs?

Existing supervisory powers already include several tools that can be and are used by supervisors to address NPLs in specific banks. Most notably, competent authorities can influence a bank’s provisioning levels within the limits of the applicable accounting framework. They can apply the necessary adjustments if accounting provisioning is not sufficient from a supervisory perspective.