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