

# Banking Union: Non-performing loans in the EU continue to decline

**\*Updated to reflect final approved version of the Communication 12/06/19 18:00\***

**Efforts to reduce risks in the EU banking sector are bearing fruit, according to new figures released by the European Commission today.**

In its fourth progress report on the reduction of non-performing loans (NPLs), the Commission today confirms that NPL levels are continuing their downward trajectory towards pre-crisis levels. The ratio of NPLs in EU banks has come down by more than half since 2014, declining to 3.3% in the third quarter of 2018 and down by 1.1 percentage points year-on-year.

Building on the December 2018 [Euro Summit conclusions](#), today's report will inform discussions on the completion of the Banking Union at the next meeting of EU finance ministers on 14 June, not least on the steps that need to be taken towards a [European Deposit Insurance Scheme \(EDIS\)](#).

Valdis **Dombrovskis**, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Unionsaid: *"Working out the remaining stocks of non-performing loans is part of our ongoing efforts to make the banking sector even stronger. Our banks are now better capitalised and better prepared to withstand economic shocks. We've recently agreed on more robust framework to regulate and supervise banks. Given this progress in reducing risks, I call on EU Finance Ministers to move forward with other measures to complete the Banking Union."*

In a separate Communication on the Deepening of Europe's Economic and Monetary Union released today, the Commission invites EU leaders to finalise the changes to the Treaty establishing the [European Stability Mechanism](#) and to make a renewed effort to advance towards the completion of the [Banking Union](#). Together with the completion of the Banking Union, this is essential for the development of [Economic and Monetary Union](#), and strengthening the [international role of the euro](#).

Despite clear improvements, high ratios of NPLs do remain a challenge in some Member States and deserve continued attention. Today's Communication calls on Member States and the European Parliament to accelerate work on the outstanding proposals to complement [the EU's action to tackle this issue](#). Important strides have already been made towards full implementation of the EU's Action Plan to tackle the high stocks of NPLs. However, the Commission calls on co-legislators to quickly agree on its proposed measures around the benchmarking of national loan enforcement and insolvency frameworks, and to develop a sharper focus on insolvency in the European Semester process.

## **Background**

Together, the [Banking Union](#) and the [Capital Markets Union](#) promote a more integrated and stable EU financial system. They increase the resilience of the Economic and Monetary Union against adverse shocks by substantially facilitating private risk sharing across borders, while at the same time reducing the need for public risk sharing.

One of the key areas for reducing risk in the European banking sector is the further decline in NPLs. The financial crisis and subsequent recessions led to a more widespread inability of borrowers to pay back their loans, as more people and companies faced continued payment difficulties and even bankruptcy. This was particularly so in Member States that faced long or deep recessions. Consequently, many banks saw a build-up of NPLs on their books. High NPL ratios remain an important challenge in some banks in particular and can considerably weigh on their performance.

The Commission has been working together with Member States concerned to address the high level of NPLs, including through the European Semester and the setting up of ad hoc and system-wide impaired assets measures, compatible with state aid rules. Member States' supervisors and banks have themselves also made considerable progress in cleaning up bank balance sheets since the crisis.

In March 2018, the Commission put forward a comprehensive package of measures as part of the EU Action Plan to tackle non-performing loans. The package contains policy actions in four areas: (i) bank supervision and regulation, (ii) further reforms of national restructuring, insolvency and debt recovery frameworks, (iii) developing secondary markets for distressed assets, and (iv) fostering, as appropriate and necessary, restructuring of banks.

Furthermore, the Commission has been working with Member States to enable case-specific solutions for banks within the framework of EU State aid and banking rules, with a clear objective of limiting costs to taxpayers whilst making sure depositors remained fully protected at all times. This enabled transactions that removed some **€112 billion** of gross NPLs from the balance sheets of banks over the last three years (around €82 billion in Italy; around €24 billion in Portugal; around €6 billion in Cyprus).

Today's fourth progress report responds to the Council's expectation to complete a regular stocktake of NPLs in the EU.

### **More information**

Communication [“Deepening Europe’s Economic and Monetary Union: Taking stock four years after the Five Presidents’ Report” – June 2019](#)

Communication [“4th Progress Report on the reduction of non-performing loans and risk reduction in the Banking Union” – June 2019](#)

[Staff working document “Strengthening the International Role of the Euro: Results of the Consultations” – June 2019](#)

Press release: [Deepening Europe’s Economic and Monetary Union: Commission takes stock of progress four years after the Five Presidents’ Report](#)

[Factsheet “Deepening Europe’s Economic and Monetary Union: Taking stock four years after the Five Presidents’ Report”](#) – June 2019

[Factsheet “The international role of the euro”](#) – June 2019

[Factsheet “The benefits of the euro”](#) – June 2019

[Factsheet “Timeline of EU actions since the start of the crisis”](#) – June 2019

[Factsheet “Capital Markets Union: Boosting investments and access to finance”](#)  
– June 2019

[Factsheet “Banking Union: Further reducing risks in the financial system”](#) –  
June 2019

[Commission sets out roadmap for deepening Europe’s Economic and Monetary  
Union – December 2017](#)

[Reflection paper on the deepening of the Economic and Monetary Union – May  
2017](#)

[The Five Presidents’ Report: Completing Europe’s Economic and Monetary Union  
– June 2015](#)