European banks

ECB offers banks more leeway to clean up pandemic-hit balance sheets

Europe's top banking supervisor urges lenders to be bold in booking provisions for bad loans

Andrea Enria, president of the European Central Bank's supervisory board © Alex Kraus/Bloomberg

Martin Arnold in Frankfurt MARCH 16 2021

Europe's top banking supervisor has said lenders could be given more time to benefit from capital relief if they speed up their recognition of loans that are likely to turn sour.

Andrea Enria, chair of the European Central Bank's supervisory board, made the comment as he called on eurozone lenders to be bolder in booking provisions for an expected rush of bad loans caused by the fallout from the coronavirus pandemic.

Speaking at a Morgan Stanley conference on Tuesday, Enria compared the rapid speed at which US banks increased their loan loss provisions with the slower pace in Europe. "It is crucial that banks recognise credit impairments without delay," he added.

The ECB, which supervises the most important 115 banks in the eurozone, responded to the pandemic last year by allowing lenders to eat into several of the extra capital buffers it had previously imposed on the sector.

However, only nine banks did so last year and others were reluctant to follow suit, worrying about how long the relief will last and the risk of stigma among investors. The ECB has previously said the capital relief would last until at least the end of next year.

On Tuesday, Enria said: “In the coming months, we will closely watch developments and stand ready to postpone the timeline to rebuild buffers if doing so would help the sector to quickly process the expected increase in [non-performing loans].”

The ECB is also trying to stop banks from paying out too much of their capital to shareholders and employees by keeping a lid on dividends and bonuses. It has pushed several lenders, including Deutsche Bank and BNP Paribas, to reduce their bonus pools.

Enria said that after the ECB allowed banks to restart dividends under strict conditions in January, “a few banks” submitted plans to pay more out to investors than it recommended. “In these cases, the supervisory dialogue with the banks is ongoing,” he said.

Last year the ECB warned that in a “severe but plausible” scenario, non-performing loans at eurozone banks could reach €1.4tn, well above the levels of the 2008 financial crisis and the ensuing EU sovereign debt crisis. Since then, Enria has said that scenario looks less likely.

Some European banks are still working through bad loans incurred after the previous crisis and non-performing loans at the largest eurozone banks fell from €506bn to €485bn in the first nine months of last year.

Analysts at Citigroup said the main European banks had marginally increased their loan loss provisions to just under €16bn in the fourth quarter, with the biggest rises at Italian lenders.

But that was less than half the level of provisions taken in the second quarter of last year when Europe was plunged into a record postwar recession. Citi analysts forecast total bad loans in Europe would peak at about €1tn next year.