



# The ECB Financial Stability Review: Discussion

Olli Castren, Head of Economic Analysis, European Banking Authority\*

SUERF Conference, May 19 2021

\* The views are mine and not necessarily those of the EBA

# The Main Risks and Vulnerabilities Identified in the ECB FSR

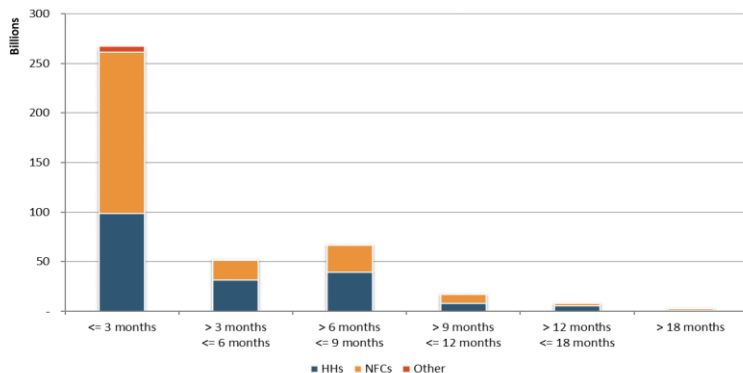
- ❖ **Key vulnerabilities identified make a lot of sense, and all is not related to COVID**
  - ❖ Geographical clustering of vulnerabilities (has increased)
  - ❖ Market exuberance (has intensified)
  - ❖ Banks stable (a positive surprise, for now)
  - ❖ Material climate related risks (awareness of transition risks has increased)
  
- ❖ **Interesting details**
  - ❖ **Zombie firms** – an important topic, lenders should continuously perform their due diligence
  - ❖ **Growing non-bank USD exposure** – are FX liquidity buffers sufficient
  - ❖ **Corporate indebtedness** – issue that predates the pandemic
  - ❖ **Commercial real estate** – what is the future post-pandemic
  - ❖ **Simulation of a US monetary policy shock** – will Larry Summers be proven right

# Some Additional Issues that May Warrant Attention

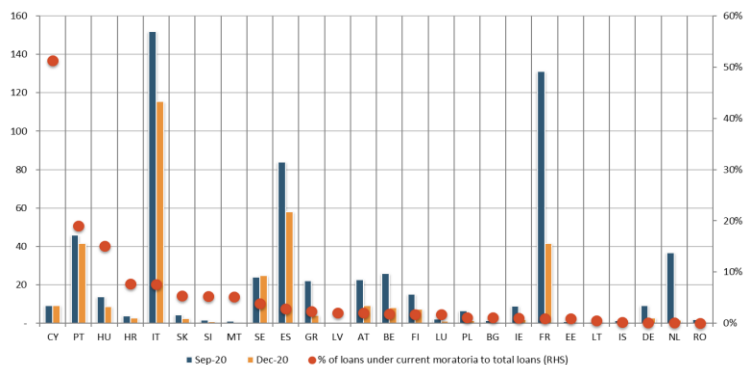
- ❖ **Macro uncertainty remains unprecedented** – swings in QoQ GDP growth rates of several percentage points can be generated by announcements of tightening or loosening of lockdown measures, with implications on market interest rates and asset prices
- ❖ **A rapid unwinding of pandemic savings** may create surprises
- ❖ **System was able to absorb severe disturbances: Wirecard, Greensill, Archegos, Reddit** – is it a sign of true resilience, excess liquidity, or just good luck?
- ❖ **The pandemic shock and the response to it may have created severe inequality** – DM/EM recovery will be very asynchronised, corporate sectors were unevenly hit, asset-owning households may have benefitted disproportionately from support measures...
- ❖ **Disruptions beyond COVID** – ESG, but also digital revolution including (central bank) cryptocurrencies will change intermediation beyond recognition and may create financial stability issues

# Loans with moratoria still significant, despite material expirations

## Distribution by residual maturity of loan moratoria – December 2020



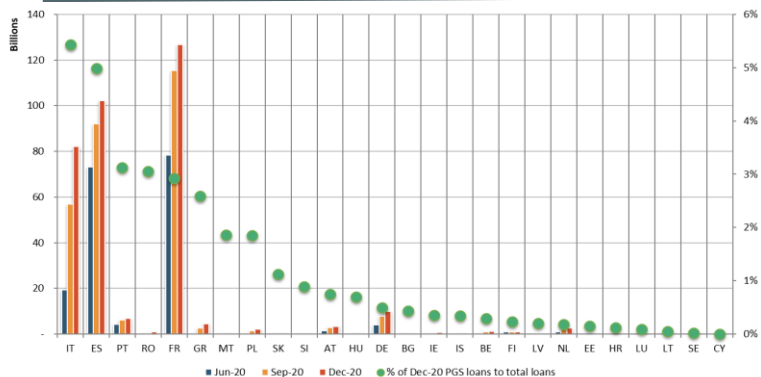
## Loans with current EBA-compliant moratoria in September and December 2020 and % of total loans in December 2020



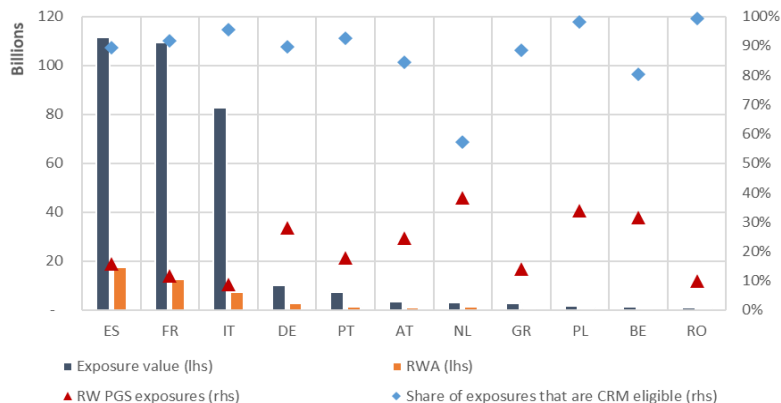
- As of December 2020, EU banks had granted moratoria for more than EUR 920bn loans (or 6.4% of total loans)
- EUR 318bn of loans were under current moratoria, down from EUR 586bn in September 2020
- Close to EUR 580bn moratoria expired. In total from June to December 2020 around EUR 212bn of loans had their moratoria extended
- Around 60% of the moratoria are set to expire by March 2021, and 80% will expire by the end of Q2 2021
- 26.5% of loans with current moratoria were classified as stage 2 loans (vs 20% in September 2020)
- EUR 10bn of loans under current moratoria were classified as non-performing, resulting in a NPL ratio of 3.3% for loans under moratoria

# PGS-loans significantly reduce RWAs for banks in some countries

Trend of PGS loan volumes (lhs) and as % of total loans (rhs) – December 2020



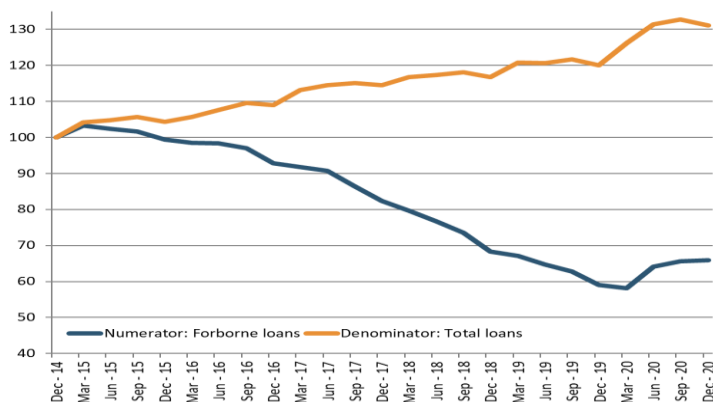
RWA impact of PGS loans, September 2020



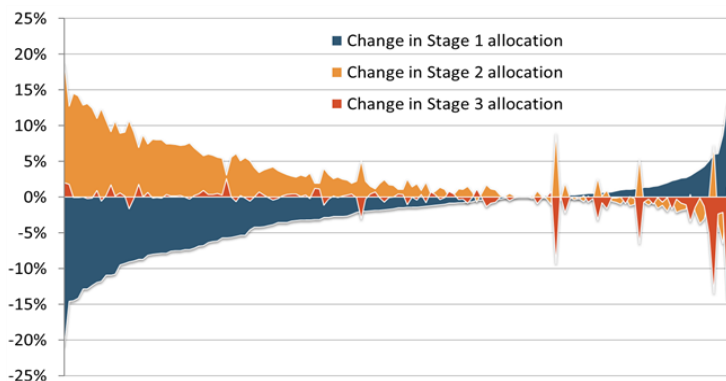
- Public Guaranteed Scheme-loans facilitate the flow of lending to the corporate sector
- As of December, EU banks reported EUR 343bn of ‘PGS-loans’ – almost 2.5% of total loans; an increase of EUR 75bn compared with September
- High dispersion across countries, with top-4 (FR, ES, IT, PT) > 90% of total PGS-loans. Also national schemes are heterogeneous
- Public guarantees significantly reduce banks’ RWA – thereby increasing capital ratios
- The average risk weight of PGS-loans was around 14% (=RWA/exposure value) vs. 60% for total banks’ NFC exposures

# NPLs decreased in net terms while forborene loans remained stable

Forborne loans: Trend of numerator and denominator (Dec 2014 = 100)



Bank by bank Stage migration (p.p. change December 2019 to December 2020)



- Banks’ true asset quality will only be revealed when support measures are being phased out – moratoria and guarantees have been instrumental to support affected sectors but transparency of lenders’ balance sheets is important now
- Asset quality indicators have not yet deteriorated: NPL inflows were substantial in 2020 (around EUR 200bn), yet there was a net decrease in NPLs driven by large NPL transactions (NPL ratio decreased to 2.6%)
- The total volume of loans allocated in Stage 2 exceeds EUR 1.2tn (9.1% of total), which is an increase by 35% compared to a year ago
- Different practices in provisioning policies and different levels of the allocation in stage 2 are seen across banks
- Historically, credit losses tend to lag business cycles by a year or more



## EUROPEAN BANKING AUTHORITY

Tour Europlaza, 20 avenue André Prothin, CS 30154  
92927 Paris La Défense CEDEX, FRANCE

---

Tel: +33 1 86 52 70 00

E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

---

<https://eba.europa.eu/>