EUROPEAN CENTRAL BANK

BANKING SUPERVISION

The post-pandemic outlook in the banking union
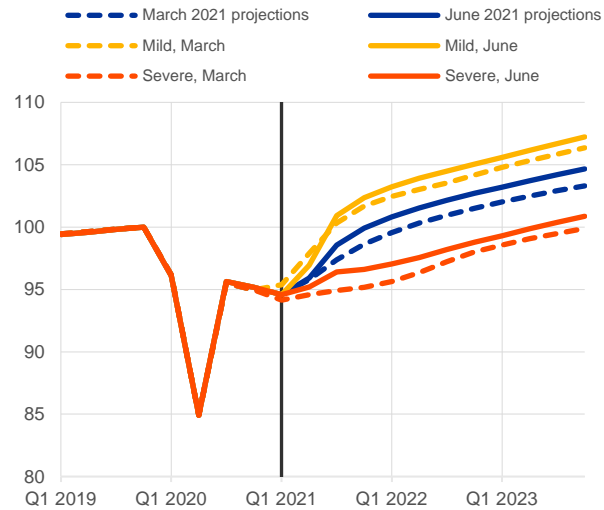
7 July 2021

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Continuously improving macro outlook

Chart 1
Eurosystem staff GDP projections
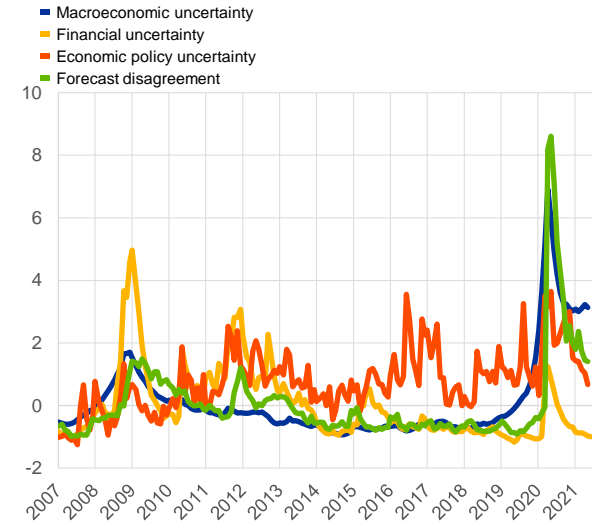(index: Q4 2019 =100)

Source: ECB.
Note: The vertical line marks the start of the projection horizon.

Chart 2
Indicators of uncertainty
(standard deviation from mean)

- Macroeconomic uncertainty
- Financial uncertainty
- Economic policy uncertainty
- Forecast disagreement

Source: ECB.
Notes: All measures of uncertainty are standardised to mean zero and unit standard deviation over the full horizon starting in June 1991. A value of 2 should be read as meaning that the uncertainty measure exceeds its historical average level by two standard deviations. The latest observations are for May 2021.

Improving liquidity and capital positions

Chart 3
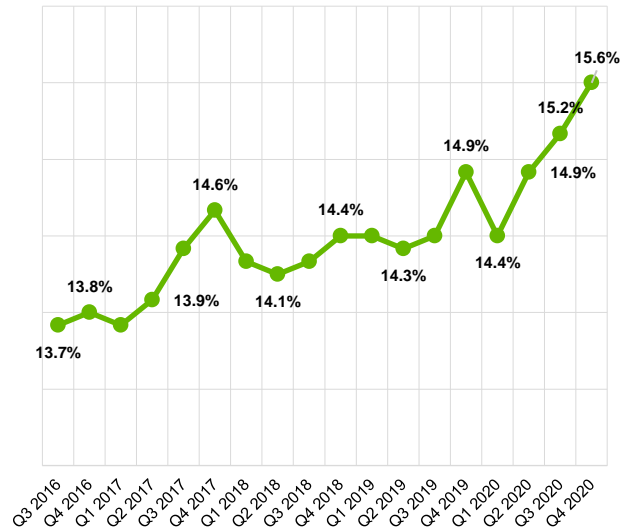**Liquidity coverage ratio**
(percentages)

Chart 4
CET1 ratio
(percentages)
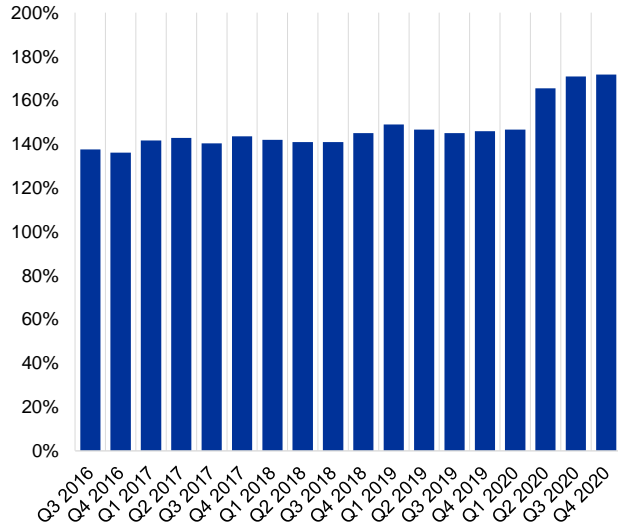
Source: Supervisory reporting.
Note: Sample comprises of 112 SIs as at the fourth quarter of 2020.

Contained tightening in bank lending standards

Chart 5
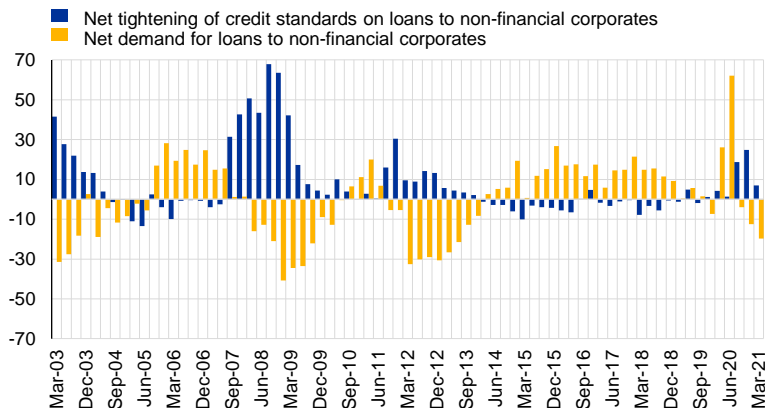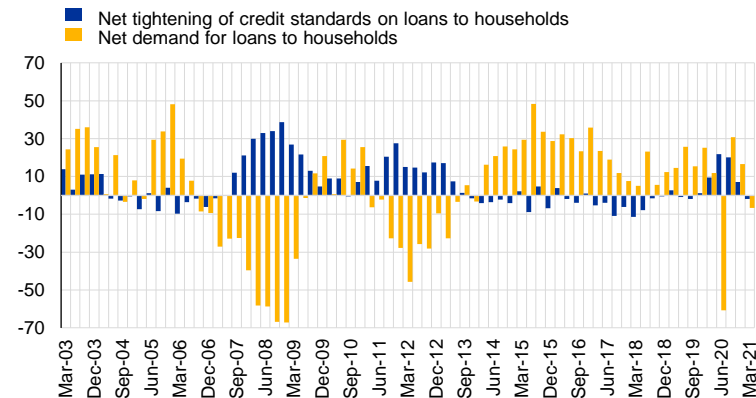### Lending standards and loan demand: non-financial corporates
(percentages)

■ Net tightening of credit standards on loans to non-financial corporates
■ Net demand for loans to non-financial corporates

Chart 6
Lending standards and loan demand: households
(percentages)

■ Net tightening of credit standards on loans to households
■ Net demand for loans to households

Source: ECB Bank Lending Survey.
Note: A positive net percentage indicates that a larger proportion of banks have tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards ("net easing").

Non-performing loans ratio continued to decrease

Chart 7
Significant institutions' non-performing loans
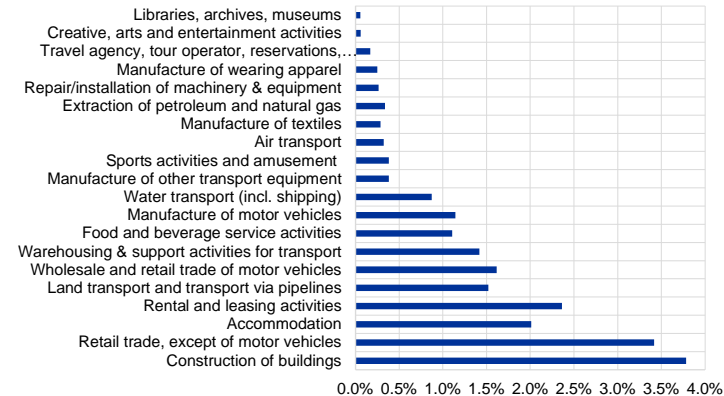(left-hand scale: EUR billions, right-hand scale: percentages)

- Non-performing loans ratio (right-hand scale)
- Performing loans (left-hand scale)
- Non-performing loans (left-hand scale)
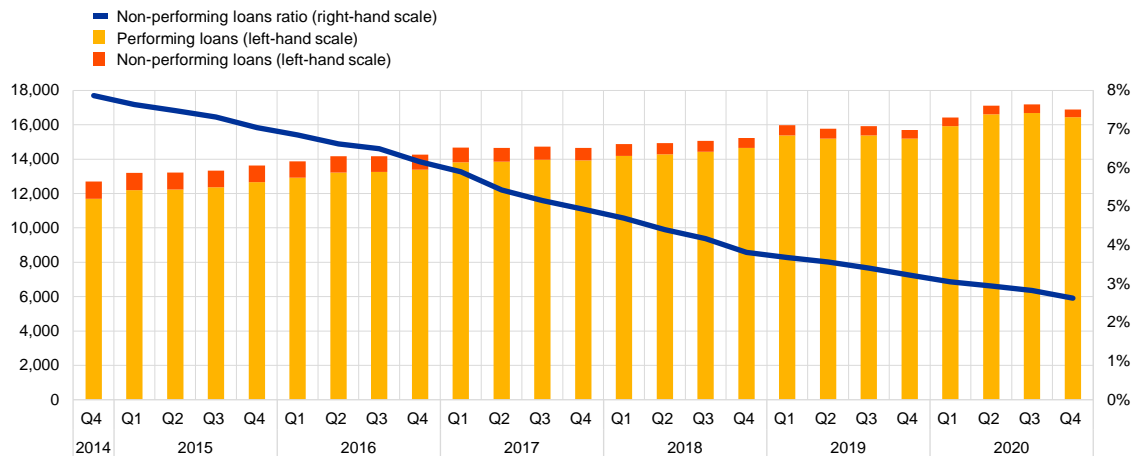
Source: ECB statistics as at the fourth quarter of 2020.
Note: Changing sample.

Areas of supervisory concern: vulnerable sectors

Chart 8
Significant institutions' exposures to vulnerable sectors
(percentage of total exposures to non-financial corporates)

Chart 9
Probabilities of default used for provisioning on new lending within the accommodation and food sectors
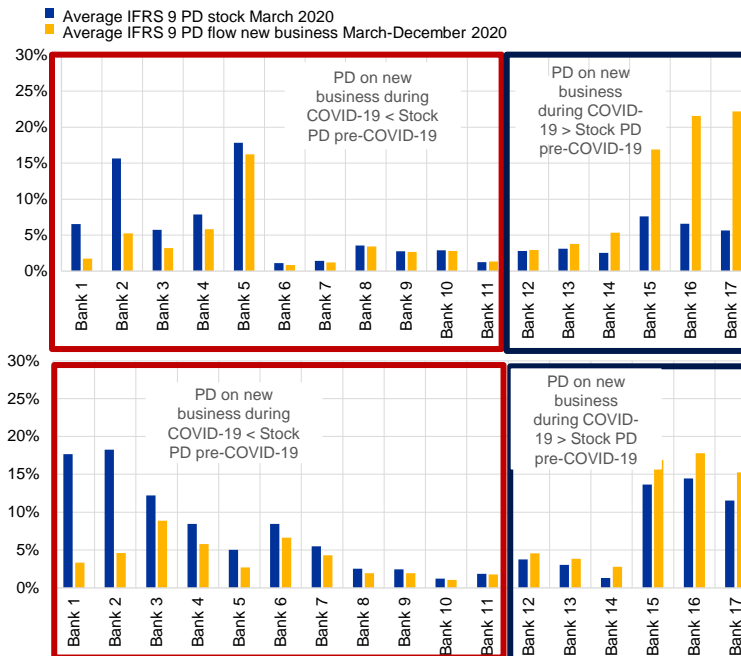(top chart: accommodation sector, bottom chart: food sector)

Sources: Chart 8: AnaCredit data as at the fourth quarter of 2020; Chart 9: ECB ad hoc data collection.

Notes: Chart 8: sample comprises 106 significant institutions. Exposures granted by subsidiaries outside the euro area are not included in AnaCredit. Chart 11: preliminary evidence.
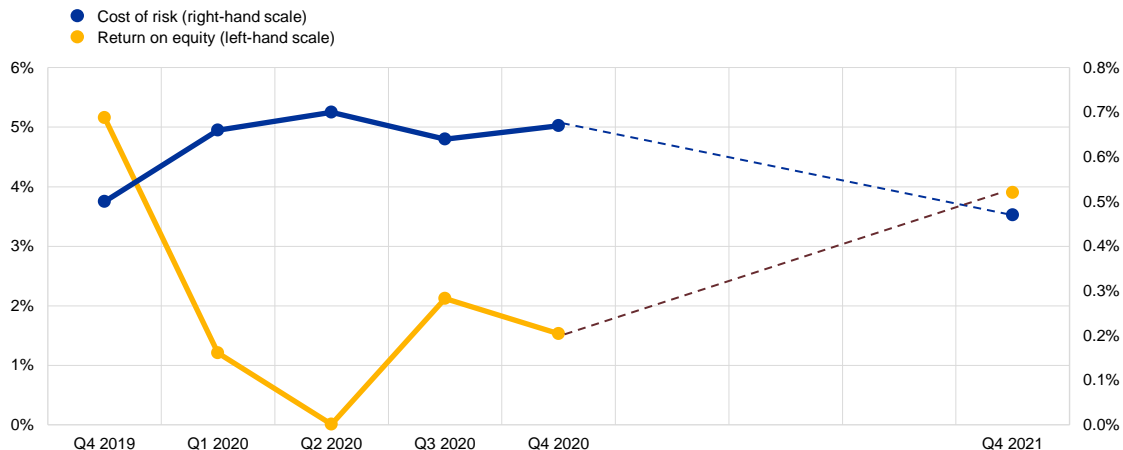
Banks' projections: profitability pushed up by lower provisions

Chart 10
Significant institutions' loan loss provisions and profitability (observed and Q4 2021 forecast values)
(percentages)

- Cost of risk (right-hand scale)
- Return on equity (left-hand scale)

- Increasing revenues: fee income to offset contraction in interest income

- Falling loan loss provisions

- Increasing administrative expenses following reduction in 2020

Sources: FINREP for actual values, COVID-19 reporting for the projections.
Notes: Sample sizes and ratio definitions differ between actual values and projections owing to data availability. Cost of risk is the ratio of the adjustments in allowances for estimated loan losses during the relevant period (annualised) divided by the total amount of loans and advances subject to impairment.

Capital-related aspects of ECB Banking Supervision crisis response

Capital and liquidity relief
- Release of P2G capital buffers (March 2020), replenishment not before end-2022
- Release of liquidity (LCR) buffers (March 2020), replenishment not before end-2021

Dividend recommendation
- Recommendation (March 2020) to refrain from dividend payout until 1 January 2021 and to exercise extreme prudence until 30 September 2021
- In absence of adverse events, recommendation will be repealed from 1 October 2021

Pragmatic SREP
- Pragmatic SREP in 2020, with P2R and P2G basically unchanged
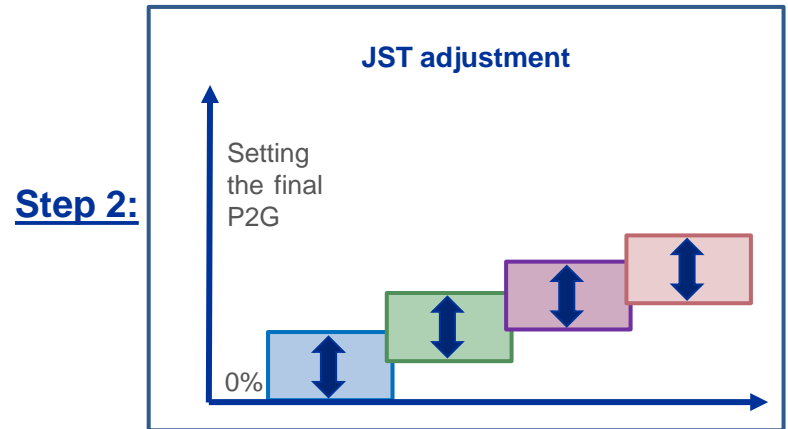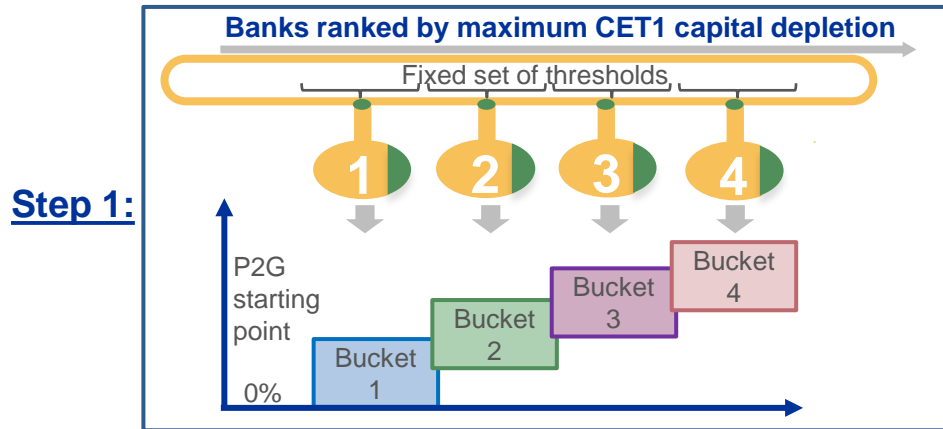- In 2021 cycle, new determination of P2R and P2G

Stress test
- Desktop-based vulnerability analysis in 2020
- Full stress test in 2021, with P2G based on revised methodology → **see next slide**

From 2021 SREP: revised P2G methodology

Why: CRDV legislative changes + EBA Draft Guidelines on SREP(*)

Step 1:

Banks ranked by maximum CET1 capital depletion

Fixed set of thresholds

1   2   3   4

P2G starting point

0%

Bucket 1
Bucket 2
Bucket 3
Bucket 4

Step 2:

JST adjustment

Setting the final P2G

0%

New methodology in line with recent EBA draft guidelines on SREP

- **Step 1:** identification of the institution in a bucket according to the maximum CET1 depletion in the supervisory stress test exercise. Buckets calibrated according to **recent supervisory experience, SSM risk tolerance and severity of the stress test exercise.**

- **Step 2** JSTs expert judgement to adjust the P2G to the idiosyncratic profile of the institution. Adjustment within the ranges of the corresponding bucket and exceptionally beyond the range of the relevant bucket, including for the last bucket.

Enhancements: level playing field, consistency, no floors, no cliff effects (overlapping P2G ranges), institution-specific adjustments, reasonable range of P2G outcomes including in cases of high capital depletion.