EBA shows that efforts to improve EU banks’ asset quality have proven successful but pockets of risks remain

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**The European Banking Authority (EBA) published today a Report on trends in asset quality of the EU banking sector, which show it has significantly improved over the last four years. Total non-performing loans (NPLs) decreased from over EUR 1.15 trillion in June 2015 (6% as a percentage of total loans) to EUR 636 billion as of June 2019. The NPL ratio declined to 3%, the lowest ratio since the EBA introduced a harmonised definition of NPLs across European countries. The average coverage ratio slightly increased from 43.6% to 44.9% over the same period.**

The Report identifies three pillars that determined the overall reduction in NPLs: supervisory attention and political determination to address the NPL issue effectively, coupled by banks’ efforts to enhance their NPL management capabilities. The reduction was also helped by a positive economic growth, low interest rates and decreasing unemployment. Countries with high NPL ratios have led the de-risking process of banks’ balance sheets.

Despite the significant improvement, dispersion of NPL ratios across countries remains wide. As of June 2019, Greece reported the highest NPL ratio (39.2%), followed by Cyprus (21.5%), while five additional countries had a NPL ratio above 5%. In comparison, in June 2015, 17 countries reported NPL ratio above 5% of which 10 countries had a double-digit ratio. Countries with high NPL ratios have larger share in past-due buckets of 1 year and more. These older NPLs are harder to cure, considerably devalued and pose a significant risk to those banks that have an increased share of assets on their balance sheets.

The differences in the speed of the recovery procedures, also due to less efficient legal frameworks and thin secondary markets for NPLs, remain the most significant impediments to the further offloading of NPLs. There are significant ongoing initiatives that aim to further boost the reduction of legacy assets both at European level and in specific countries. However, in light of weakening economic conditions, all banks should closely monitor the asset quality to identify any possible deterioration, especially in riskier segments, and continue actively managing the NPLs in their balance sheets.

**Notes to editors**

This is the second thematic Report on NPLs, following the [one published in July 2016](https://eba.europa.eu/sites/default/documents/files/documents/10180/1360107/c6ad9c6f-e85d-4a1e-a20a-45911fcc2ff9/EBA%20Report%20on%20NPLs.pdf?retry=1).  This Report is based on supervisory data of asset quality metrics, and aims at updating on the progress made so far in addressing NPLs in Europe. It also takes stock of ongoing initiatives to tackle the NPL issue both at EU level and at member state level, identifies challenges to tackle the remaining NPL stock and indicates possible areas where further action is needed.

The report is accompanied by [a data visualisation tool](https://tools.eba.europa.eu/interactive-tools/2019/powerbi/npl19_visualisation_page.html) that provides a country-by-country analysis of key asset quality metrics.