EUROPEAN
COMMISSION

Brussels, 28.11.2018
COM(2018) 766 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL AND THE EUROPEAN CENTRAL BANK

Third Progress Report on the reduction of non-performing loans and further risk reduction in the Banking Union

{SWD(2018) 472 final}

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INTRODUCTION

In the current economic and financial context, the European Union should seize the opportunity to reinforce the Economic and Monetary Union. In line with the Commission's roadmap of 6 December 2017 for deepening the Economic and Monetary Union[1], and corresponding to the Leaders' Agenda[2], completing the Banking Union remains one of the Union's key policy objectives. Completing the Banking Union will further reinforce trust in the banking sector and more widely in the Economic and Monetary Union. This will boost the Economic and Monetary Union's resilience to adverse shocks by enabling more private risk sharing across borders.

This Communication is a contribution to the European Council and the Euro Summit in inclusive format of 27 EU Member States in December, which will discuss progress in reinforcing the European Stability Mechanism and completing the Banking Union, including further steps towards a European Deposit Insurance Scheme, in line with the statement of the June Euro Summit in inclusive format. This progress should take place in parallel to progress in risk reduction.

As the Commission emphasised in its Communication of 11 October 2017[3], the Banking Union should be completed by achieving risk reduction and risk sharing in parallel, based on the Council Roadmap of June 2016[4]. Risk reduction and risk sharing complement and reinforce each other. Progress in the various domains, including agreement on the backstop to the single resolution fund and a European Deposit Insurance Scheme, should therefore take place in parallel.

One of the key areas for reducing risk in the European banking sector is the further decline of non-performing loans (NPLs). The financial crisis and subsequent recessions led to 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-

1 COM(2017) 821.

2 http://www.consilium.europa.eu/media/21594/leaders-agenda.pdf.

3 https://ec.europa.eu/info/publications/171011-communication-banking-union_en.

4 http://www.consilium.europa.eu/en/press/press-releases/2016/06/17/conclusions-on-banking-union/.

up of NPLs on their books. High NPL ratios remain an important challenge, for some Member States in particular. High stocks of NPLs can weigh on banks' performance. First, NPLs generate less income for a bank than performing loans and thus reduce its profitability, and may cause losses that reduce the bank's capital. Second, NPLs tie up significant amounts of a bank's resources, both human and financial. This reduces the bank's capacity to lend, including to small and medium-sized enterprises. In turn, this negative effect in terms of credit supply also reduces the capacity of businesses to invest, hence creating a tangible effect on the real economy.

In order to reduce the high NPL stocks, the Union agreed on a comprehensive set of measures outlined in the "Action Plan to Tackle NPLs in Europe"[5], which is currently being implemented. In response to this need and going beyond the 2016 Council Roadmap, the Commission presented a dedicated and comprehensive package of measures in March 2018 to further reduce NPLs. The Council also agreed to revert to the issue of NPLs on a regular basis and to assess the progress made on the basis of a stocktake by the Commission. This Communication is the Commission's third such progress report in response to the Council's expectation. It is complementary to the Progress Report on the Capital Markets Union, also adopted today.

1. THE BROADER CONTEXT: RISK REDUCTION IN THE UNION

Over the last decade, the Union and its Member States have worked hard to reduce risk in the banking sector.[6] A series of measures taken since the financial crisis have strengthened banks' solvency, leverage and liquidity positions in significant and practical ways, have substantially improved governance within and supervision of the banking sector and have significantly enhanced banks' resolvability. The average Tier 1 capital ratios[7] of euro area banks directly supervised by the Single Supervisory Mechanism have risen, from 14.18 % in Q2-2017 to 14.67 % in Q2-2018. This strengthening of capital positions is also reflected in higher leverage ratios. The average leverage ratio[8] increased further from 5.08 % in Q2-2017 to 5.14 % in Q2-2018. Euro area banks also maintained their resilience to liquidity shocks, as the liquidity coverage ratio remained stable at 140.92 % in Q2-2018, compared to 142.79 % in Q2-2017. This all testifies to the determined action taken to reduce risk across the euro area. As a result, risks have been more effectively and evenly addressed. The recent stress test further shows that banks' efforts to build up their capital base in recent years have strengthened their resilience and capacity to withstand shocks, underlining the health of the European banking system.

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5 https://www.consilium.europa.eu/en/press/press-releases/2017/07/11/conclusions-non-performing-loans/.

6 See also: 'Monitoring report on risk reduction indicators': https://www.consilium.europa.eu/media/37029/joint-risk-reduction-monitoring-report-to-eg_november-2018.pdf.

7 The tier 1 capital ratio is the ratio of a bank's core tier 1 capital – i.e. its equity capital and disclosed reserves – to its total risk-weighted assets.

8 I.e. the fully loaded leverage ratio (dividing Tier 1 capital by the bank's total assets) that is calculated in a more stringent manner and presented before 2019, when the transitional phase ends. The softening effect of the transitional implementation period is ignored.

As outlined in the 2017 Banking Union Communication[9] and confirmed by the Second Progress Report on the Reduction of NPLs[10], the Commission has put forward further substantial and complementary measures to reduce risk and enhance the resilience of the European banking sector. For example, in November 2016, the Commission proposed the banking "risk reduction package", a significant legislative package reviewing the Bank Recovery and Resolution Directive (BRRD), the Single Resolution Mechanism Regulation (SRMR), the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation (CRR), with the objective of further reducing remaining risks in the banking sector.[11] The Commission welcomes significant progress in trilogue discussions between the European Parliament, the Council and the Commission on this package which should pave the way for an agreement before the end of the year. In 2016, the Commission also adopted a proposal for a directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.[12] Effective restructuring and insolvency rules are indeed essential to preventing and reducing NPLs.

Table 1: Delivering on the roadmap to complete the Banking Union

POLICY DESCRIPTION		EUROPEAN PARLIAMENT	COUNCIL OF MINISTERS
1.	**European Deposit Insurance Scheme**	🟠	🟠
2.	**Capital Requirements Reform**	🟡	🟡
3.	**Loss-absorbing and recapitalisation capacity (Reg. & Dir.)**	🟡	🟡
4.	**Common backstop**	🟡	🟡
5.	**Further developing secondary markets for NPLs including more efficient value recovery**	🟡	🟡
6.	**Minimum loss coverage for non-performing exposure**	🟡	🟡

🟠 **AGREEMENT POSSIBLE IF STRONG POLITICAL COMMITMENT FROM ALL UNION INSTITUTIONS**

🟡 **SWIFT AGREEMENT POSSIBLE BY FOLLOWING NORMAL PROCEDURES**

9 COM(2017) 592 of 11 October 2017.

10 COM(2018) 133 of 14 March 2018.

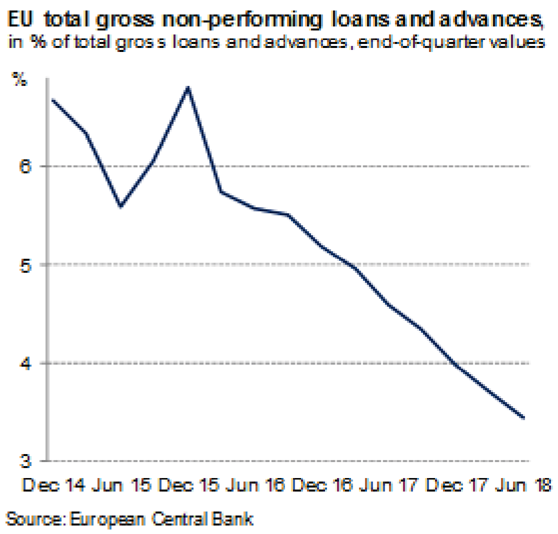
11 http://europa.eu/rapid/press-release_IP-16-3731_en.htm.

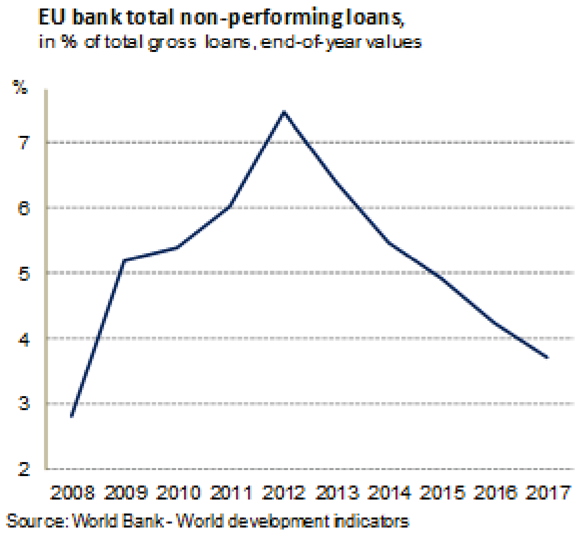
12 COM/2016/0723 - 2016/0359 (COD).

2. RECENT DEVELOPMENTS OF NON-PERFORMING LOANS

NPL ratios continued to decline in the first half of 2018. This followed and confirmed the overall trend of improvement over recent years. The latest figures show that the gross NPL ratio for all EU banks further declined to 3.4 % (Q2-2018), down by 1.2 percentage points year-on-year (see Figure 1). The NPL ratio of significant institutions[13] also decreased over the same timeframe by almost one percentage point to 4.4 %. The ratio has thus continued its downward trend since Q4-2014. Additional data sources with regard to the longer term trend indicate that the NPL ratio is approaching pre-crisis levels again (see Figure 2). The provisioning ratio[14] has also further improved and has risen to 59 % (Q2-2018).

Figures 1 and 2: Non-performing loans ratio in the Union





NPL ratios have fallen in nearly all Member States. However, the situation continues to differ significantly between Member States (see Table 2). At the end of Q2-2018, 12 Member States had low NPL ratios of below 3 %, while there are still some with considerably higher ratios – 3 Member States had ratios above 10 %. Even in Member States with relatively high NPL ratios, there is encouraging and sustained progress in most cases due to a combination of policy actions and economic growth.

This reduction in NPLs and NPL ratios has been facilitated by determined action – by bank management and policymakers – particularly in Member States with relatively high NPL levels. There is a trend across Member States towards further improving risk management practices (especially in vulnerable banks) and strengthening provisioning of NPLs, hence improving banks' capital positions. For instance, in Spain, following the resolution of Banco

[13] I.e. credit institutions that are directly supervised by the European Central Bank, in its supervisory capacity.

[14] This ratio indicates the extent of funds a bank has kept aside to cover loan losses.

Source: European Central Bank. Due to the unavailability of provisioning data for loans, the provisioning ratio for the EU was calculated by considering impairments and NPLs for all debt instruments (loans and debt securities).

Popular in 2017, other banks accelerated the clean-up of their balance sheets. In Cyprus, NPLs have continued to fall since the end of 2015 and are expected to decline more sharply in the second half of this year, when a sizeable NPL portfolio is removed from the banking system, supported by a considerable volume of NPL sales. The continued use of NPL securitisation schemes also provides an impetus to NPL reduction. In Italy, the securitisation scheme supported by state guarantees (known as the *Garanzia Cartolarizzazione Sofferenze* or GACS) was introduced in 2016 and extended for another six months in September 2018. Several other market infrastructure initiatives are also supportive in tackling NPLs. For example in Portugal, initiatives to promote coordination between creditors (to accelerate credit restructuring or NPL sales) are a welcome addition to the policy mix.

Generally speaking, the environment in which banks can work out their NPLs has improved significantly since the crisis. As a result, banks have been able to build on restored stability in the financial system, partly with the aid of a better and clearer regulatory framework. This stability has enabled banks to enhance their internal capacity to manage and resolve NPLs. In many cases, banks have developed these activities into dedicated stand-alone entities. Beyond this capacity, banks have also taken advantage of an expansion in available external loan services, which have supported the increasing outsourcing of NPL resolution activities. The market for NPL servicing has clearly grown and has become more developed throughout Europe.

In line with the post-crisis regulatory improvements, banks and other market participants have hence acquired substantial knowledge and experience in resolving NPLs. The steady growth in NPL sales and NPL securitisation has encouraged this important evolution towards a more mature NPL resolution environment. Yet a truly sustainable solution for the remaining NPL problem in Europe depends on putting further effort into innovative and collaborative approaches. Some are already emerging in the market, as comprehensive partnerships have been taking shape between different market participants, for instance between banks and specialised third-party servicers. This increasingly allows them to share knowledge and information. In this way, banks and other market players are able to make further strides in digitalisation and platform initiatives (e.g. creditor coordination or data repositories). These developments hold the potential to reduce the cost of NPL management and make it easier to transfer NPLs from banks to businesses that are better equipped to carry the relevant operational and financial burden. Continued specialisation among market participants will further improve efficiency in managing and resolving NPLs from different asset classes.

These improvements are crucial in order to address the current stock of NPLs effectively. So far, efforts have concentrated strongly on NPLs secured by collateral and – to a lesser extent – on unsecured retail NPLs. A large portion of the remaining exposure consists of NPLs to corporate and small and medium-sized enterprises, particularly in Member States where NPLs have been the result of economic recession rather than of a crisis of real-estate markets. In general, NPLs related to corporates and small and medium-sized enterprises are more heterogeneous in nature and can often prove more complex to tackle.

The management of NPLs can be seen as being at an inflection point. It has steadily matured from a crisis activity into a more structural and functional approach. The commercial, technological and regulatory advances are falling into place, yet need to continue to be supported by targeted policy decisions, both at national and European level. They could then serve as stepping stones to enable the system to evolve into a fully sustainable structure that is able to efficiently resolve existing stocks of NPLs as well as manage – and hence prevent – future accumulation.

Table 2: Non-performing loans and provisions by Member State [15]

	Gross NPLs and advances (% of total gross loans and advances)		Private sector NPLs* (% of private-sector loans)		Total loss provisions (loans)** (% of total doubtful and non-performing loans)	
	2018Q2	2017Q2	2018Q2	2017Q2	2018Q2	2017Q2
Belgium	2.4	2.8	3.4	4.0	53.9	50.1
Bulgaria	9.2	12.1	14.5	19.2	64.2	54.8
Czech Republic	2.2	2.9	4.1	5.3	65.2	53.1
Denmark	2.5	2.9	2.9	3.2	35.9	38.4
Germany	1.7	2.3	2.8	4.3	83.6	43.6
Estonia	1.8	2.0	2.3	2.5	38.7	44.6
Ireland	8.5	11.6	11.8	15.8	37.6	37.6
Greece	44.9	46.9	48.4	50.6	52.2	49.2
Spain	4.1	5.3	5.2	-	63.3	59.9
France	2.9	3.4	4.0	4.6	65.4	59.7
Croatia	8.7	11.7	13.3	16.5	72.9	68.8
Italy	10.0	12.2	12.9	15.9	59.3	52.9
Cyprus	28.1	33.4	44.7	52.7	48.6	47.1
Latvia	5.9	5.9	8.5	9.3	38.5	43.8
Lithuania	3.1	3.7	3.9	4.9	34.9	36.3
Luxembourg	0.6	0.7	1.8	1.8	49.8	51.6
Hungary	6.7	10.4	9.2	15.3	76.5	66.3
Malta	3.2	3.7	-	6.7	50.0	41.8
Netherlands	2.0	2.3	2.7	3.0	35.0	38.3
Austria	2.9	4.1	4.0	5.7	65.8	62.6
Poland	7.0	6.6	7.5	7.2	67.7	58.0
Portugal	11.7	15.5	12.9	16.2	58.5	49.4
Romania	5.9	8.5	7.6	11.0	77.1	69.4
Slovenia	7.4	11.4	9.9	14.7	67.4	70.4
Slovakia	3.8	4.1	4.2	4.7	84.6	68.9
Finland	1.1	1.4	2.0	2.1	33.2	31.9
Sweden	1.3	1.2	1.5	1.4	34.5	34.8
United Kingdom	1.3	1.6	2.3	2.5	48.3	40.6
European Union	**3.4**	**4.6**	**-**	**-**	**59.0**	**50.8**

Source*:* European Central Bank, Consolidated Banking Data. Calculations by Commission services (DG FISMA)

[15] *Notes:* Figures correspond to domestic credit institutions and foreign-controlled subsidiaries and branches.

* Sector-specific data for the EU, for Malta (i.e. Q2-2018) and for Spain (i.e. Q2-2017) are not available. Sector-specific data (i.e. total exposure to households and non-financial corporations) for Bulgaria, Germany and Hungary are only available in carrying amount.

** Data for the provisioning of loans are unavailable for Bulgaria, Germany, Spain (with the exception of Q2-2018), Hungary and the EU. In these cases, figures are based on impairments for all debt instruments (i.e. loans and debt securities).

Despite this encouraging progress, NPLs continue to pose risks to economic growth and financial stability. The total volume of NPLs across the Union still stands at EUR 820 billion.[16] Structural impediments continue to hamper a faster decline in NPL stocks. Among other elements, debt restructuring, insolvency and debt recovery processes continue to be a significant hurdle in some cases, as they remain too slow and unpredictable. Activity on secondary markets for NPLs is growing in some Member States, supported by relevant policy actions (as explained above), although it is not yet sufficient to substantially contribute to NPL reduction efforts on a structural basis. That being said, the development of the secondary market is encouraging, as it has sustained continued momentum in several Member States, with banks selling large portfolios. Interest from investors is rising and the volume of NPL-related transactions is increasing.

3. Progress in implementing the Council Action Plan

The Council agreed in its Action Plan to revert to the issue of NPLs on a regular basis, in order to take stock of their evolution in the Union and to assess the progress made in the implementation of the Action Plan, based on a stocktake from the Commission. This section presents the detailed stocktake for the different elements of the Action Plan.[17] Table 3 demonstrates that important strides have been made towards full implementation of the Action Plan.

Table 3: Progress in implementing the Action Plan

No.	Status	No.	Status
1	Interpretation of existing supervisory powers in EU legislation as regards NPL provisioning	8	Improving loan tape information required from banks
2	Addressing potential under provisioning, via automatic and time-bound provisioning	9	Strengthening data infrastructure for NPLs, including potential transaction platforms
3	Extend Single Supervisory Mechanism NPL guidelines to small banks	10	Develop a Blueprint for asset management companies
4	Adopting EU-wide management guidelines for non-performing exposures	11	Develop secondary markets for NPLs
5	New guidelines on banks' loan origination, monitoring and internal governance	12	Benchmarking of national loan enforcement and insolvency frameworks
6	Develop macroprudential approaches to tackle the build-up of future NPLs	13	Develop the focus on insolvency issues in the European Semester
7	Enhanced disclosure requirements on asset quality and NPLs for all banks	14	Enhancing the protection of secured creditors

Accomplished
Imminent
Ongoing

[16] Source: European Central Bank

[17] This is partly based on contributions from the European Central Bank, the European Systemic Risk Board and the European Banking Authority.

1. *Interpretation of existing supervisory powers in EU legislation as regards NPL provisioning*

The Commission provided the requested interpretation in the Single Supervisory Mechanism Review Report published on 11 October 2017. It was clarified that Union legislation, in particular Article 16(2)(d) SSMR[18] and Article 104(1)(d) of the CRDIV[19], provides supervisors with powers to influence a bank's provisioning policy with respect to NPLs within the limits of the applicable accounting framework, and to apply the necessary adjustments to own funds (deductions and similar treatments) on a case-by-case basis.

2. *Addressing potential under provisioning, via automatic and time-bound provisioning*

As part of its package of proposals on NPLs put forward in March 2018, the Commission proposed a Regulation amending the Capital Requirements Regulation, introducing common minimum coverage levels for newly originated loans that become non-performing. If a bank does not meet the applicable minimum level, deductions from its own funds would apply. The proposal is currently under discussion in the Council and the European Parliament. The Council has agreed its negotiating position and the Commission calls on Parliament to do the same so that a final agreement can be struck before the end of the current legislature.

3. *Extend NPL guidelines by the Single Supervisory Mechanism for smaller (non-directly supervised) banks*

The European Central Bank, in its supervisory capacity, has worked closely with the European Banking Authority to finalise the recently published guidelines on management of non-performing exposures (see point 4 below). These guidelines should be applied by all credit institutions in the Union. Less systemic institutions should also apply the guidelines on a proportionate basis, in cooperation with national competent authorities.

4. *Adopting Union-wide guidelines for non-performing exposures*

The European Banking Authority published *Guidelines on the management of non-performing and forborne exposures* in October 2018, for banks and supervisory authorities. The Guidelines are aimed at effective and efficient management and a sustainable reduction in NPLs on banks' balance sheets. At the core of these guidelines, banks are expected to establish strategies for non-performing exposures together with appropriate governance and operational arrangements. These strategies and arrangements are subject to supervisory assessment under the Supervisory Review and Evolution Process. The Guidelines should be applied as of 30 June 2019.

5. *New guidelines on banks' loan origination, monitoring and internal governance*

The European Banking Authority has been drafting guidelines on loan origination and monitoring. The draft guidelines are planned to cover banks' internal governance on credit

[18] Council Regulation (EU) No 1024/2013 (Single Supervisory Mechanism Regulation – SSMR).

[19] Directive 2013/36/EU (Capital Requirements Directive – CRDIV).

risk; assessment of borrowers' creditworthiness[20]; collateral valuation; and banks' credit risk monitoring activities, covering different asset classes and counterparties. Given the scope of the topic and its link with the consumer protection framework, e.g. assessment of prospective borrowers' creditworthiness, it may take some time to draft a comprehensive set of guidelines. Potential interaction with stakeholders in the field of consumer protection on this point may delay delivery of the draft guidelines. The European Banking Authority expects to discuss the draft consultation paper on the guidelines on loan origination and monitoring at the meeting of its Board of Supervisors in early 2019 and to publish the consultation paper later that year.

6. Develop macroprudential approaches to tackle the build-up of future NPLs

The European Systemic Risk Board is on course to finalise a report by the end of 2018 on macroprudential approaches to preventing the emergence of system-wide NPL problems. The report also gives due consideration to the procyclical effects of measures addressing NPL stocks and potential effects on financial stability. In the meantime, the Board's Advisory Scientific Committee published its own contribution on the topic in September 2018. One key aspect that has been investigated is the optimal speed and form of NPL resolution from a system-wide perspective.

7. Enhanced disclosure requirements on asset quality and NPLs for all banks

The European Banking Authority has developed *Guidelines on disclosure of non-performing and forborne exposures*. These Guidelines aim to explain a common content and uniform disclosure formats for information on non-performing exposures, forborne exposures and foreclosed assets that banks should disclose.[21] They aim at aligning the disclosure aspects for all institutions across the Union with those currently recommended in the Single Supervisory Mechanism's Guidance to banks. The European Banking Authority has carried out a public consultation and the final Guidelines are expected to be published in Q4-2018. They should be applied as of 31 December 2019.

8. Improve loan tape information required from banks on their banking book credit exposures

In order to strengthen the data infrastructure with uniform and standardised data for NPLs, the European Banking Authority issued templates for loan tape monitoring in December 2017. These templates are not part of supervisory reporting, but banks and investors are encouraged to use these standardised NPL templates for business transactions.[22] The

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[20] The European Banking Authority will need to take into account the ongoing evaluation of the Consumer Credit Directive by the Commission, so that interference is avoided as regards the provision of the Directive on the assessment of borrowers' creditworthiness. The evaluation of the Consumer Credit Directive has been announced in the 2019 Commission Work Programme (See annex II of COM(2018) 800 final).

[21] These Guidelines broaden the scope of the European Banking Authority's Guidelines on disclosure requirements under Part Eight of the Capital Requirements Regulation ('EBA GL2016 11') published in December 2016.

[22] The European Banking Authority's asset class-specific NPL transaction templates allow loan-by-loan reporting at the most granular level and contain over 450 data points relevant for valuation and due diligence purposes in NPL transactions.

templates cover information on loans, counterparties related to the loans and the collateral provided. After the templates were issued, additional testing was carried out with current data in the first half of 2018. Use of the templates by various institutions and the European Banking Authority's contacts with stakeholders provided further feedback, and the Authority published a revised version in September 2018. The Authority's engagement with the industry confirmed that various market participants currently use these templates for transactions.

9. Strengthen the data infrastructure for NPLs and consider the set-up of NPL transaction platforms

A Union-wide NPL transaction platform would be an electronic marketplace where holders of NPLs – banks and non-bank creditors – and interested investors can exchange information and trade. Such a platform has the potential to address several current sources of market failure in the secondary market for NPLs, including asymmetry of information between sellers and buyers and high transaction costs. As a result, it could help banks increase sales and obtain higher sales prices than currently possible, ease investor access to NPL markets, and thereby allow banks to dispose of NPLs and clean up their balance sheets faster. Such a platform could help deal with current stocks of NPLs and provide a permanent channel for the efficient disposal of future NPLs as they arise. In this sense, it could be an important, yet low-cost, infrastructure investment preventing a new build-up of large stocks of NPLs in the future. It could therefore be an essential means of contributing to a sustainable solution to the NPL issue in Europe.

The Council called on the European Central Bank, the European Banking Authority and the Commission to consider setting up an NPL transaction platform in order to stimulate the development of secondary markets. This Communication is therefore accompanied by a Commission services' staff working document on the potential set-up of such a transaction platform, drafted jointly by the Commission, the European Central Bank and the European Banking Authority. It outlines the Commission services' view on how the arrangements for such a vehicle could work in practice.

The Commission has today also invited industry stakeholders to a roundtable in order to kick-start work on achieving Union-wide NPL platforms. The Commission will ask stakeholders to agree, by Spring 2019, on the concrete forms for developing and issuing industry standards for European NPL platforms. The Commission will, together with the European Central Bank and the European Banking Authority, continue to play a key role in facilitating the taking of the necessary steps to promote the emergence of Union-wide NPL platforms by all relevant stakeholders.

10. Develop a blueprint for national asset management companies

As part of the NPL package of March 2018, Commission services published a technical blueprint for setting up a national asset management company, in close cooperation with the European Central Bank, the European Banking Authority and the Single Resolution Board. The non-binding blueprint provides guidance to Member States – that so wish – for the restructuring of their banks by establishing national asset management companies (or other measures dealing with NPLs), should they find it useful, in full compliance with EU banking and State aid rules.

11. Develop secondary markets for NPLs

Also as part of its NPL package of March 2018, the Commission proposed a directive on credit servicers, credit purchasers and the recovery of collateral. One of the proposal's objectives is to further develop secondary markets for NPLs by harmonising requirements and creating a single market for credit servicing and the transfer of bank loans to third parties across the Union. The proposal is currently under discussion in Parliament and the Council. The Commission is calling for these negotiations to be finalised before the end of the current legislature.

12. Benchmarking exercise on the efficiency of national loan enforcement (including insolvency) regimes from a bank creditor perspective

The management of NPLs would benefit from more efficient and predictable loan enforcement and insolvency frameworks. The Commission services are therefore undertaking a benchmarking exercise of national loan enforcement regimes, encompassing both individual enforcement and collective enforcement or insolvency proceedings. The objective is to obtain a reliable picture of the delays and value recovery rates that banks face when borrowers default. These outcomes are heavily influenced by judicial capacity in the respective Member States. Progress on the benchmarking exercise was presented to and discussed with Member States at meetings on 21 February and 20 June 2018, including the issue of lack of access to meaningful data.

13. Develop the focus on insolvency issues in the European Semester

Issues in national corporate insolvency frameworks have been a long-standing topic under the European Semester. They have been analysed in several country reports, and several country-specific recommendations have been adopted on this particular topic. Since 2013, country-specific recommendations on insolvency issues have been made in different years to twelve Member States: Bulgaria, Croatia, Cyprus, Hungary, Italy, Latvia, Malta, Portugal, Romania, Slovakia, Slovenia and Spain. In 2018, country-specific recommendations on insolvency were adopted for six Member States: Bulgaria, Cyprus, Italy, Latvia, Portugal and Slovenia. In the current European Semester, insolvency issues will also be analysed in the country reports for 2019. In May 2019, the Commission will issue its recommendations to the Council for country-specific recommendations.

14. Further analyse the possibility of enhancing the protection of secured creditors

As part of its March NPL package, the Commission proposed a directive on credit servicers, credit purchasers and the recovery of collateral. One of the proposal's objectives is to enable accelerated extrajudicial enforcement of collateral where creditors and borrowers so agree upfront (but not for consumer loans). The proposal is currently under discussion in the European Parliament and the Council. The Commission is calling for these negotiations to be finalised before the end of the current legislature.

4. CONCLUSIONS

As shown clearly in this Progress Report, risk reduction in the EU banking sector continues at a sustained pace and significant progress is being made. The Progress Report therefore presents an important contribution to the European Council and the Euro Summit in inclusive format of 27 EU Member States in December, which will discuss the reinforcement of the European Stability Mechanism and the completion of the Banking Union, including further steps towards a European Deposit Insurance Scheme. Progress on these matters is now urgent and should be made in parallel to progress on risk reduction.

As shown clearly in this Progress Report, NPLs continue to decline in the Union. This robust downward trend is very encouraging, but high NPL ratios remain a challenge in some Member States.

The Action Plan agreed by the Council in July 2017 was a major step in addressing this challenge. Substantial progress has been made in its implementation. However, to be able to address NPLs in the most effective manner, the Action Plan should be fully implemented by all actors. This is crucial to addressing the challenge of high NPLs, both in terms of reducing existing stocks to sustainable levels and preventing a renewed future accumulation.

In particular, the Commission calls on Parliament and the Council to swiftly agree the banking "risk reduction package", as well as all elements of the comprehensive package of legislative measures proposed in March 2018 to tackle NPLs. This package, together with the significant progress in the reduction of NPLs, in cooperation with the European Banking Authority, the European Central Bank and the European Systemic Risk Board, is imperative to support the ongoing collective efforts to reduce remaining risk in the European banking sector and pave the way for, in particular, the completion of the Banking Union.