



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Dimitrios Papadimoulis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 7 May 2015

L/MD/15/298

Re: Your letter (QZ-54)

Honourable Member of the European Parliament, dear Mr Papadimoulis,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 23 March 2015.

I can assure you that the ECB is taking the issue of high levels of non-performing loans (NPLs) and private indebtedness within the euro area seriously, all the more so in the light of the micro and macro-prudential responsibilities that we assumed in November 2014.

Let me remind you that the ECB performed a comprehensive assessment of the balance sheets of 130 euro area banks in 2014, which covered more than 80% of total euro area banking sector assets. The results of the asset quality review (AQR), which was part of this assessment, provided a detailed overview of non-performing exposures (NPEs)¹ of the 130 participating banks in 19 euro area countries, based on a common definition of NPEs. Granular results for all participating banks and countries are available on the ECB's website.

¹ Please note that across the Single Supervisory Mechanism, participating banks' definitions of NPLs and NPEs (which include exposures other than loans) varied materially. Therefore, in order to achieve comparability, the AQR applied a standard definition of NPEs. This definition was a simplified version of the definition contained in the final draft implementing technical standards on forbearance and non-performing exposures published by the European Banking Authority on 21 October 2013.

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Following the review banks were asked to adjust the level of risk provisions where needed and some banks were also requested to strengthen their capital buffers. One of the aims of these steps was to enable banks to effectively address NPEs on their balance sheet, which are typically associated with losses that reduce their capital position. Sufficient capital buffers are needed for banks to absorb the associated losses so as not to jeopardise financial stability.

In addition, let me assure you that the ECB, as banking supervisor, together with the national competent authorities, pays close attention to the issue of high NPL ratios, including in the Supervisory Review and Evaluation Process.

I share the view that greater effort is needed to reduce the high level of NPLs and restructure excessive private sector debt in parts of the euro area. This has also been one of the key objectives of the economic adjustment programme in Greece.

More precisely, the ECB, as one of the institutions involved in the programme was involved in the preparation of a comprehensive strategy and implementation plan to resolve high levels of NPLs, together with the Greek authorities.

Consumer protection issues were an important element of that strategy. For instance, a binding Code of Conduct for banks was implemented in 2014, which specified the terms of engagement between banks and debtors. In addition, definitions of terms such as “acceptable living expenses” and “cooperative borrowers” were adopted in order to provide guidance to banks and the judiciary with a view to protecting the most vulnerable households.

While some elements of the strategy have already been implemented, further progress is still needed on others.

Yours sincerely,

[signed]

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