



## EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector

12 March 2020

- *EU-wide stress test postponed to 2021 to allow banks to prioritise operational continuity*
- *Competent authorities should make full use, where appropriate, of flexibility embedded in existing regulation*

### Background

The outbreak of COVID-19 (Coronavirus) and its global spread since February has created significant immediate challenges to society and risks for the economic outlook. Although the long-term magnitude of the economic shock cannot yet be quantified, it will likely dampen economic activity.

Since the financial crisis, European banks have strengthened their capital position, built up solid liquidity buffer and improved the quality of the assets on their balance sheets. EU banks have implemented measures to ensure business continuity and adequate service to their customers, but they are facing operational challenges, hence the need to focus on their core operations and critical functions. Supervisors are working with banks as they maintain their support to household and corporate sectors, particularly to small and medium enterprises, and ensure that the basic needs of their customers are satisfied.

The EBA, along with national competent authorities (CAs) and the European Central Bank, is coordinating a joint effort to alleviate the immediate operational burden for banks at this challenging juncture. The EBA recommends CAs to make full use, where appropriate, of the flexibility embedded in the regulatory framework to support the banking sector.

### Supporting banks' focus on core operations

Addressing any operational challenges banks may face should be the priority. The EBA has decided to postpone the EU-wide stress test exercise to 2021. This will allow banks to focus on and ensure continuity of their core operations, including support for their customers. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks' exposures and asset quality to market participants.

In addition, the EBA recommends CAs to plan supervisory activities, including on-site inspections, in a pragmatic and flexible way, and possibly postpone those deemed non-essential. CAs could also give banks some leeway in the remittance dates for some areas of supervisory reporting, without putting at stake the crucial information needed to monitor closely banks' financial and prudential situation.

### Making use of the flexibility already embedded in existing regulation

A number of provisions in the regulatory framework ensure that banks build up adequate capital and liquidity buffers. These buffers, including macroprudential ones, are designed to be used in order to absorb losses and ensure continued lending to the economy during a downturn. Banks should also follow prudent dividend and other distribution policies, including variable remuneration.

CAs are encouraged, where appropriate, to make full use of the flexibility already embedded in the existing regulatory framework. The ECB-Banking Supervision's decision to allow banks to cover Pillar 2 requirements with capital instruments other than common equity tier 1 (CET1) is an example. The use of Pillar 2 Guidance is another way to ensure that prudential regulation is countercyclical and banks can provide the necessary support to the household and corporate sectors.

The liquidity coverage ratio (LCR) is also designed to be used by banks under stress. Supervisors should avoid any measures that may lead to the fragmentation of funding markets.

It is crucial that the classification of exposures accurately and timely reflects any deterioration of asset quality. There is, however, flexibility in the implementation of the EBA Guidelines on management of non-performing and forborne exposures and the EBA calls for a close dialogue between supervisors and banks, also on their non-performing exposure strategies, on a case by case basis.

The EBA is in close contact with the European Systemic Risk Board in order to ensure that microprudential and macroprudential measures are fully aligned.

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