European Commission - Speech

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Remarks by Executive Vice-President Dombrovskis at the press conference on the Commission banking package to facilitate lending to households and businesses in the EU

Brussels, 28 April 2020

We are dealing with an unprecedented crisis. Our immediate priority is to save lives and protect livelihoods. The EU and its Member States are doing everything possible to support people and companies.

Besides the European Central Bank, we have collectively mobilised about €3.4 trillion.

This is equivalent to almost 25% of the EU's GDP and our fastest and largest response to a crisis - ever. Today, we are turning our attention to the financial sector.

During the last crisis, we had to prop up banks. This time, we are helping banks to prop up households and companies. They need to keep the liquidity taps turned on.

This is the goal of the package we have adopted today: to facilitate bank lending to support the real economy.

It is based on a three-pronged strategy.

First: encouraging banks to make full use of the flexibility within the EU's prudential and accounting rules.

Today we are clarifying how these rules can be applied more flexibly and coherently, while maintaining a prudent approach to preserve financial stability.

This takes the form of a Communication that uniformly interprets that flexibility so thatbanks and supervisors can act based on a clear, common set of principles.

Along with the work that supervisory authorities have done already, these clarifications should go a long way to help provide relief to banks.

For instance:

- Banks are not expected to apply accounting rules mechanically when setting aside capital for expected losses on their loans. This is justified in an exceptional situation such as the coronavirus crisis.

- Banks should not automatically account for a significant rise in credit risk simply because loans are subject to private or statutory moratoria.

- A bank does not have automatically consider a borrower in default when he or she calls on a guarantee.

Second: providing further capital relief for banks to support lending to the economy.

We are also proposing some specific amendments to the Capital Requirements Regulation (CRR) concerning prudential rules applicable to banks.

In line with the Basel Committee's recent agreement, the date for applying the leverage ratio buffer requirement will be deferred by one year to 1 January 2023.

We will also mitigate the impact on banks' capital from expected credit-loss provisioning under accounting rules known as IFRS 9.

In addition, to get European banks to further support the recovery, we will bring forward the application of the revised SME supporting factor and the new infrastructure supporting factor;

We will also bring forward a more preferential treatment for software to free up additional capital;

We will temporarily change rules on how central bank reserves impact banks' leverage ratio calculations, because these are currently too restrictive and discourage banks from drawing on central bank liquidity facilities;

We will treat more favorablyloans that are publicly guaranteed under the Non-Performing Loans prudential backstopduring this crisis;

Banks should suspend the distribution of dividends and limit remuneration, as recommended by the European Banking Authority and the European Central Bank.

They should use the capital freed up by these measures to lend to the economy.

To be clear: these are temporary and specific adjustments to cope with exceptional circumstances.

We remain committed to the post-financial crisis regulatory framework and the implementation of Basel III.

The third part of our strategy: We will encourage the financial sector to develop best practices to support businesses and households.

The Commission will open a dialogue to bring the financial sector together with groups representing consumers and businesses. We plan to involve banks, but also non-bank lenders, insurance companies, fintech companies, and other financial market participants.

There should be concrete solutions to concrete problems that companies and households are experiencing.

And we need to act quickly.

Many banks and national banking associations have already deferred rental payments for vulnerable families, corporate loan repayments and leasing contracts. Some have made credit lines immediately available to SMEs and the self-employed.

These types of practices are very welcome. Unfortunately, they have not been uniformly applied by banks across our Member States.

Looking to the future, we need to reflect together on how the financial sector can best contribute to a sustainable and resilient recovery, based on the green and digital transformations.

To conclude:

This crisis calls for collective action. The Commission will do its utmost to facilitate an unfettered flow of financing to the real economy and households.

The changes proposed by the Commission in response to the crisis need to happen quickly to have their intended effect. So I rely on the Parliament and Council to deal with our proposal as a matter of urgency and adopt this package in June.

Thank you.

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Press contacts:

Daniel FERRIE (+32 2 298 65 00)
Aikaterini APOSTOLA (+32 2 298 76 24)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email