



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Gunnar Beck

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 21 January 2021

L/CL/21/9

Re: Your letter (QZ-074)

Honourable Member of the European Parliament, dear Mr Beck,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 10 December 2020.

In response to your question on whether the ECB's November 2020 Financial Stability Review contradicts the November 2020 monitoring report on risk reduction indicators, I would like to highlight the differences between those two publications in terms of their scope and purpose. That should clarify why the two publications do not contradict each other.

The risk reduction report, which is prepared jointly by the European Commission, the ECB and the Single Resolution Board, provides regular updates on progress with the reduction of risk in the banking union, informing political decisions on progress towards completion of the banking union. As agreed by the Member States,¹ that report looks at the evolution of risk within the banking union, focusing on a number of specific risk reduction indicators. Moreover, on 4 December 2018 the Eurogroup, in its inclusive format, adopted terms of reference on the common backstop to the Single Resolution Fund, which indicated how the reduction of risk would be assessed in that context.² In line with those terms of reference, the scope of the November 2020 risk reduction report was broadened in order to provide additional analysis regarding

¹ See this letter dated 25 June 2018 from the President of the Eurogroup to the President of the Euro Summit, available at: <https://www.consilium.europa.eu/media/35798/2018-06-25-letter-president-centeno-to-president-tusk.pdf>.

² See Eurogroup terms of reference of the common backstop to the Single Resolution Fund, 4 December 2018, available at: https://www.consilium.europa.eu/media/37268/tor-backstop_041218_final_clean.pdf.

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non-performing loans (NPLs) and minimum requirements for own funds and eligible liabilities (MREL). The indicators in the risk reduction report have proved to be informative in terms of identifying vulnerabilities in the banking sector.

The Financial Stability Review, on the other hand, has a different scope. It covers both the banking sector and the non-bank financial sector and may include policy recommendations. One of the conclusions of the November 2020 issue is that the banking system has increased its resilience over the last decade, so it is better placed than in the past to handle many of the challenges that lie ahead.

As regards your second question, on 30 November 2020 the Eurogroup, in its inclusive format, agreed that, given the progress made in the area of risk reduction, it was possible to proceed with the early introduction of the common backstop to the Single Resolution Fund.³ The Eurogroup noted that NPLs had declined substantially and the continuous build-up of MREL-related capacity, in line with the benchmarks set out in the terms of reference, which were achieved thanks to the significant efforts of the banking sector, supervisors and national authorities. At the same time, work will continue with a view to further reducing risks within the banking union. The Eurogroup recognised that the coronavirus (COVID-19) crisis was likely to temporarily interrupt or slow down the favourable trends that had been observed in recent years, and that monitoring of remaining or emerging vulnerabilities should therefore continue.

Yours sincerely,

[signed]

Christine Lagarde

³ See statement of the Eurogroup in inclusive format on the ESM reform and the early introduction of the backstop to the Single Resolution Fund, 30 November 2020, available at: <https://www.consilium.europa.eu/de/press/press-releases/2020/11/30/statement-of-the-eurogroup-in-inclusive-format-on-the-esm-reform-and-the-early-introduction-of-the-backstop-to-the-single-resolution-fund/>.

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