Non-performing loans – A danger for the Banking Union?

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The establishment of the third pillar of the Banking Union, namely the creation of a European deposit insurance scheme, has been blocked up to now. Some countries – like Germany and the Netherlands – are arguing that the risk of bank default is still too heterogeneous in the euro zone to allow deposit guarantees to be pooled.

Our article, **[L'Union bancaire face au défi des prêts non 'performants'](#)** ["The Challenge of Non-performing Loans for the Banking Union"], focuses on how to solve the "problem" of non-performing loans (NPLs) in a way that can break this deadlock and finally complete the Banking Union. This is a crucial step in order to restore confidence and allow the emergence of an integrated banking market.

Our review of the current situation shows that:

1. The level of NPLs is still worrying in some countries. The situation is alarming in Cyprus and Greece, where unprovisioned NPLs represent more than 20% of GDP, whereas the situation is "merely" worrying for Slovenia, Ireland, Italy and Portugal, where unprovisioned NPLs are between 5% and 8% of GDP;
2. In total, at end 2017, the amount of unprovisioned NPLs for the euro area came to 395 billion euros, which is equivalent to 3.5% of euro area GDP. On this scale, the "problem" of non-provisioned NPLs thus seems more modest.

Looking beyond private solutions such as debt forgiveness, provisioning, securitization and the creation of bad banks, our conclusion is that it is the public authorities at the

European level who ultimately have the most effective means of action. They have multiple levers at their disposal, including the definition of the relevant regulatory and institutional framework; supervision by the ECB, which could be extended to more banks; and not least monetary and fiscal policies at the euro zone level, which could be mobilized to buy up doubtful debt or enter the capital of banks experiencing financial distress.