EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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ECB asks banks to refrain from or limit dividends until September 2021

- ECB calls on banks to refrain from or limit dividends until 30 September 2021
- Dividends to remain below 15% of cumulated 2019-20 profits and not higher than 20 basis points of CET1 ratio
- ECB reiterates supervisory expectation that banks exercise extreme moderation on variable remuneration

The European Central Bank (ECB) today recommended that banks exercise extreme prudence on dividends and share buy-backs. To this end, the ECB asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions, until 30 September 2021. The recommendation also reflects an assessment of the stability of the financial system and was made in close cooperation with the European Systemic Risk Board.

Given the persisting uncertainty over the economic impact of the coronavirus (COVID-19) pandemic, the ECB expects dividends and share buy-backs to remain below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower. Banks that intend to pay dividends or buy back shares need to be profitable and have robust capital trajectories. They are expected to contact their Joint Supervisory Team to discuss whether the level of intended distribution is prudent. Banks should refrain from distributing interim dividends out of their 2021 profits.

The previous recommendation for a temporary suspension of all cash dividends and share buy-backs of 27 March 2020 (and its subsequent extension on 28 July) reflected the exceptional and challenging circumstances which the European economy faced in 2020. In revising its recommendation, the ECB acknowledges the reduced uncertainty in macroeconomic projections. Despite ongoing challenges, revised forecasts are close to the central scenario used in the vulnerability analysis conducted by the ECB in the first half of the year, which confirmed the resilience of the European banking sector.

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The revised recommendation aims to safeguard banks' capacity to absorb losses and lend to support the economy. A continued prudent approach remains necessary, as the impact of the pandemic on banks' balance sheets has not manifested itself in full at a time when banks are still benefiting from several public support measures, and considering that credit impairments come with a temporal lag.

The recommendation is related to the current exceptional circumstances and will remain valid until the end of September 2021. At that time, in the absence of materially adverse developments, the ECB intends to repeal the recommendation and return to assessing banks' capital and distribution plans based on the outcome of the normal supervisory cycle.

Banks should continue to use their capital and liquidity buffers for lending purposes and loss absorption. The ECB will not require banks to start replenishing their capital buffers before the peak in capital depletion is reached.

In a letter to banks, the ECB also reiterated its expectations that banks adopt extreme moderation on variable remuneration following the same timeline foreseen for dividends and share buy-backs (30 September 2021). The supervisor will closely assess banks' remuneration policies, with a specific focus on their impact on banks' ability to maintain a sound capital base.

The ECB recommends that national supervisors apply the same approach to less significant banks under their direct supervision, as appropriate.

Further details on the supervisory measures are explained in the FAQs (see Section 4 on dividends and variable remuneration).

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