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ECB Signals Readiness to Curb Bank Dividends When Cap Lifts

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Entrevista de Jeannette Neumann y Nicholas Comfort a la subgobernadora, Margarita Delgado

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The European Central Bank could take steps to ensure that lenders avoid paying excessive dividends later this year, when it will "most likely" lift a cap on payouts, a top official said.

Margarita Delgado, a member of the ECB's supervisory board, said in an interview on Monday that the central bank will call on lenders to remain "cautious." Her remarks dampen the possibility of a surge in payouts as the European economy shakes off the worst impact of the pandemic.

The ECB will push banks that propose excessive shareholder rewards "to go back to a more average distribution policy," said Delgado, who is also the deputy governor of Spain's central bank. "We have other tools if the bank doesn't accept the recommendation of the supervisor."

Euro-area bank stocks fell slightly after the comments. Such steps could -- in exceptional circumstances and after "constructive" dialogue -- include subjecting lenders to higher capital requirements or qualitative measures. In addition to an assessment of a bank's financial strength, the ECB will compare payout plans to those with a similar size or business model, she said.

European lenders are itching to boost shareholder returns. A day after Delgado spoke, the Bank of England removed restrictions imposed at the height of the pandemic to make sure top lenders such as HSBC Holdings Plc, Barclays Plc, Standard Chartered Plc could weather deep losses.

The ECB will take a decision on whether to lift the cap on dividends later this month, after capping them for the first nine months of the year, a limit that has weighed on stock prices. The Euro Stoxx Banks Index fell 0.3% in early trading. Some U.K. lenders gained after the decision by the Bank of England to lift curbs, with HSBC Holdings up as much as 3.9% in Hong Kong.

Delgado's comments show regulators are bracing for a potential rise in corporate insolvencies as loan-payment holidays end and Covid-19 variants heighten uncertainty.
"We will analyze the situation of each of the banks -- that's what back to normal means," Delgado said. "Let's take Bank X, which is solvent enough, prudent enough, with enough

management buffers and very strong recurring profitability, probably that bank will be allowed to pay not only for 2021 results, but also 2020."

Ten of the biggest euro-area banks have more than more than 22.2 billion euros ($26.3 billion) set aside to reward shareholders, according to calculations by Bloomberg. BNP Paribas SA, Banco Bilbao Vizcaya Argentaria SA, ING Groep NV, Intesa Sanpaolo SpA and Nordea Bank Abp are sitting on the biggest reserves.

Bankers slammed the de facto payout ban last year. Societe Generale SA Chairman Lorenzo Bini Smaghi, a former ECB official, said it risked making European banks "uninvestable." Policy makers say the cap has helped to bolster balance sheets and ensure that credit continues to flow to firms.

Non-performing loans

Delgado said monitoring credit risk will be a top priority for supervisors this year and next. "We're pushing the banks in order to have an adequate and prudent recognition of potential losses of the loans," she added. The deputy governor expects an increase in non-performing loans in Spain, most likely in the first half of 2022, though she said that "I don't believe this will be a dramatic shift."

The Spanish economy contracted more sharply than any other in the euro area last year, and the outlook for the all- important tourism industry hinges in part on the trajectory of Covid-19 variants.

Spanish banks

Delgado urged Spanish and euro-area banks to take steps to address low profitability. Lenders in Spain such as CaixaBank SA and BBVA have recently cut staff numbers as part of an effort to trim costs.

Those cuts were smaller than originally announced though, with banks under pressure from the Socialist-led government to reduce firings during the pandemic. Spain already had one of Europe's highest unemployment rates before the Covid-19 crisis hit.

Delgado welcomed the ability of executives and union leaders to reach an agreement that brings cost savings but avoids strikes. The risk to a bank's reputation also has a potential cost, she said. "I was concerned for the reputation of banks," she said. "They were on the front page of media -- and this is never good for them."