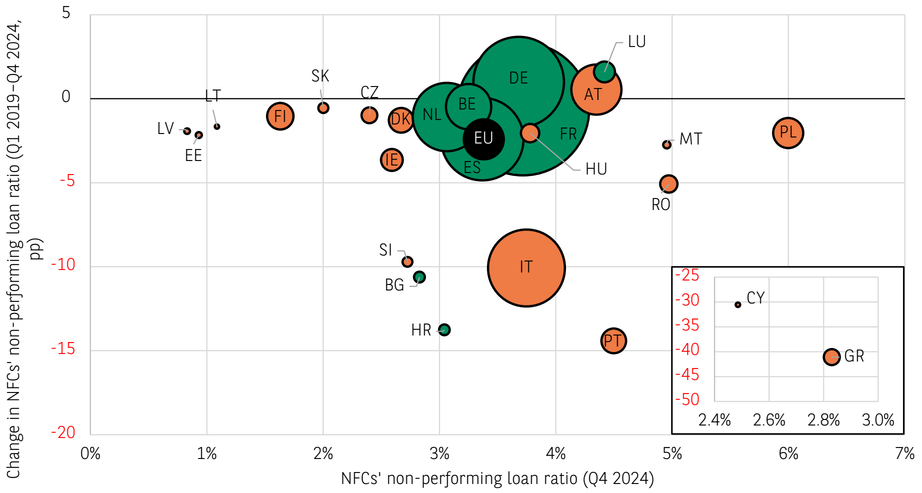
CHART OF THE WEEK

10 July 2025

NON-PERFORMING LOANS IN THE EUROPEAN UNION: SHARP DECLINE AND LOWER DISPERSION SINCE 2019

RATIOS AND CHANGES IN NON-PERFORMING LOANS IN EU BANKING SYSTEMS



*Green bubbles represent a share of floating-rate loans to NFCs below the EU average. Orange bubbles represent a share of floating-rate loans above the EU average. Bubble size is proportional to the outstanding amounts of non-performing loans as of Q4 2024, except for the EU, for which it is arbitrary.

SOURCE: ECB, EBA, BNP PARIBAS

Non-performing loan (NPL) ratios of non-financial corporations declined in most EU/EEA banking systems between 2019 and 2024. On average, the ratio fell significantly to 3.38% in Q4 2024 (-2.4 percentage points since Q1 2019). Only the German, Austrian and Luxembourg banking systems recorded an increase, but they started from a level significantly below the EU/EEA average NPL ratio.

Regional homogeneity is emerging. A dichotomy can be observed between banking systems located in the north east of Europe and those located in the south. The NPL ratios of the former were initially quite low and declined only slightly between 2019 and 2024, while the ratios of the latter were both historically higher and fell more sharply over the period. Finally, banking systems in core Europe not only had ratios close to the Eurozone average but also showed more moderate variations (increase or decrease) between 2019 and 2024; these geographically central countries are also notable for their significantly higher proportion of fixed-rate loans. This illustrates the protective nature of fixed rates for borrowers and, consequently, the lower impact of interest rate rises on non-performing loan ratios.

Towards less divergence? While the dichotomy between the banking systems of northeastern and southern Europe was already apparent before the pandemic, the dispersion between the two groups has narrowed significantly since then. Starting from much higher levels, the balance sheet consolidation of southern European banks has enabled their NPL ratios to fall more sharply than in the north east and to converge towards the Eurozone average. Outstanding NPLs in Spain, Greece, and Italy were even lower than in Germany in Q4 2024, whereas they had exceeded them in Q1 2019. The decline in non-performing loan ratios in southern Europe is due to the development of the secondary market and a series of reforms to the bankruptcy law. These reforms have aimed to shorten the length of recovery procedures and increase the recovery rate for creditors, in order to prevent non-performing loans from weighing on bank lending and the transmission of monetary policy in the long term.

However, the legal framework still appears more conducive to the rapid removal of non-performing loans from banks' balance sheets in northeastern Europe[1]. In addition, in southern Europe, the industrial fabric is often more fragmented, as it is made up of smaller, less diversified companies in more cyclical sectors (such as real estate and tourism). These companies are therefore more sensitive to downturns in the domestic economy. Given the persistent structural differences between northeastern and southern Europe, NPL ratios could diverge again. However, this is likely to be to a much lesser extent than in 2014 and 2015, as financial fragmentation between core and peripheral Eurozone countries is less pronounced today.

1 European Commission, 2025, EU Justice Scoreboard.

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