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Article

ECB to freeze bank dividends due to Covid-19

The measure is expected to keep €30bn in the system and is aimed at supporting banks' capacity to absorb losses in this stressed environment

Content

Late Friday announcement

On Friday evening the ECB updated its recommendation to banks on dividend distributions. To boost banks' capacity to absorb losses and support lending to households, small businesses and corporates during the pandemic, they should not pay dividends for the financial year 2019 and 2020 until at least 1 October 2020. Additionally, banks should refrain from share buybacks aimed at remunerating shareholders. Dividends already paid do not have to be cancelled retroactively, but any dividend proposals are expected to be amended.

Helping to support bank capital buffers

- The ECB's decision comes after Banco Santander announced on 24 March it would consolidate any dividend payment from 2020 into a single payment in May 2021. CaixaBank announced on 26 March its intention to reduce the size of the intended distribution and change its dividend policy to a cash payout ratio of not higher than 30%.

- In Nordic countries, several banks have indicated plans to reconsider their dividends. SEB on 19 March, Swedbank on 20 March and Danske Bank on 23 March have all indicated they're re-evaluating their dividend proposals. Handelsbanken indicated on 24 March postponing its dividend decision. In the Netherlands LeasePlan indicated on 25 March it would pay no further dividends on its 2019 net results.

- The ECB does not mention whether the view taken on dividends will have an impact on banks' possibility to call their regulatory capital instruments. In general, banks would need to either have strong enough capital buffers in place or be able to refinance with similar or better quality capital to be able to call their regulatory capital paper. With the extremely volatile credit markets, issuing regulatory capital instruments may be difficult for most names in our view. We believe the ECB announcement will make the uncertainty regarding any upcoming calls higher.
- We believe the ECB statement should ease any concern about a signalling effect on a bank-by-bank basis in the case of cancelling dividends.
- According to Andrea Enria, the Chair of Supervisory Board of the ECB, the measure is expected to keep €30bn of CET1 capital in the system. This should support banks' capacity to absorb losses in this stressed environment. We consider that the ECB announcement regarding dividends will support bank capital buffers, which should be a positive in these uncertain times for senior unsecured debtholders.

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