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How banks respond to the crisis now is critical to the global recovery

The COVID-19 pandemic has triggered a global public health and economic crisis. Human and societal costs are already significant, and governments have taken unprecedented steps in an attempt to weather the economic impact. Many predict 2020 will see the worst peacetime performance for the global economy since the Great Depression. The International Monetary Fund projects a sharp global economic contraction of -3% in 2020, much worse than during the 2008-09 Global Financial Crisis.

The present crisis is like no other in the extent and severity of its shock, the uncertainty over its duration, and the strength and shape of an eventual rebound. Whereas previous crises required economic policies to stimulate activity, much of the present economic impact is attributable to necessary containment measures. Banks can and have been playing an important role in alleviating the immediate liquidity issues. By providing a reliable source of financing to corporates and individuals, and by being a conduit for delivering many of the public policy measures, we have been helping bridge the cash flow needs of our clients and communities.

In addition, many banks are taking their own initiatives to fight the impact of this virus. At Standard Chartered for instance, we've announced \$1 billion of financing at cost for companies that provide goods and services to help the fight against COVID-19. And we have launched a \$50m COVID-19 assistance fund with \$25m allocated to emergency relief in the most affected markets and \$25m to help communities' recovery from the medium-term economic impact of the virus.

This crisis, however, has reminded us that financial markets can go through episodes of 'market illiquidity'. They quickly exhibit extreme volatility as some market participants must sell down their positions to meet their financial obligations. Corporates are also seeking to increase their liquidity buffers to manage their working capital needs, leading to an overall hunt for cash. The European Central Bank has decisively responded to those challenges, including unveiling the Pandemic Emergency Purchase Programme with an overall Euro 750bn envelope to buy government and corporate bonds. To address the global risk of dollar shortages the Fed has put in place, among other measures: dollar swap lines for a number of central banks; and, a special dollar facility for many central banks.

These measures are being used by banks to channel liquidity to the economy thus preventing a liquidity-driven crisis. While the magnitude of the impact of the COVID-19 crisis on financial stability in the medium term is difficult to assess at this stage, the

dramatic fall in economic activity and the increase in both public and private sector debt will likely have a significant impact on the financial sector and on banks. For example, the fall in economic activity could contribute to the deterioration of asset quality of banks, leading to a vicious circle of reduced lending, poor profitability and negatively impacting the economy. This is not a new problem in the EU, which faced similar issues following the 2012 EU sovereign debt crisis, leaving banks at the periphery with high-level of non-performing assets and endemic lending. Yet European banks face the present crisis from a much stronger situation, reflected in substantially higher capital ratios, liquidity buffers and improved risk management frameworks. Low profitability nevertheless remains a concern and is likely to become even lower, at least in the short term.

While the present crisis resembles no other since World War II, we can look to the past for useful lessons. In particular, few would argue against the idea that concerted and decisive action is essential now and to prevent the occurrence of a significant "second wave". International cooperation is required in the easing of lock-down measures to harmonise travel restrictions, enable supply chains to operate and facilitate trade. A coordinated global response is also key to adequately allocate protective equipment and medical supplies, collect funds for vaccine research and provide access to all once a vaccine is found.

There is a related, but equally important, need for a paradigm shift to one where we appreciate that no one truly wins unless everyone is helped. We have already seen some of this in the way governments have responded to the crisis. What risks we, as a society, choose to share, and how generous the safety net is that we choose to create for this and future generations, are, of course, some of the key questions that lie before us in the coming weeks and months. ●