EUROFI VIEWS MAGAZINE - ZAGREB APRIL 2020

Dr. Karl-Peter Schackmann-Fallis

Executive Member of the Board, Deutscher Sparkassen- und Giroverband (DSGV)

Solidarity and Stability in Europe

The economic consequences of the Corona Pandemic are tremendous and rapidly deteriorating. After China and Europe, now the US, emerging and developing economies are hit most severly. In the US the initial response has been insufficient and inconsistent for a long time. An aggravating factor for the leading Western economy will be that it has less automatic stabilizers than most European countries.

There is hope that in many European Union countries the further spread of the disease can be controlled. Discussions about the appropriate exit strategy are beginning. Yet, the clear priority still has to be to limit new infections. If containment measures were to be withdrawn too early, a second wave could increase economic damages even further.

The Corona shock is symmetric, hitting the real economy with full force. Everything possible must be done to support and stabilise the economy. Capital stock and labour force potential must be maintained as much as possible. They form the basis for the economic recovery. Europe and the Member States have taken action: fiscal policies are delivering "whatever it takes". The rules of the Growth and Stability Pact are suspended for the duration of the pandemic, and rightly so. It is now important to make full use of all possibilities via the ESM and the EIB. The 500 billion Euro programme recently agreed by the Eurogroup is a fundamental sign of European solidarity.

A well-functioning financial services infrastructure will be vital to channel funds as quickly as possible to the real economy. That is why we are asking legislators and regulators to lower operational and administrative burdens for the banking sector now and to adjust implementation and application timeframes for all levels of legislation to the impact of COVID-19.

Within just 11 bank working days the German savings banks have had more than 704.000 conversations with their corporate customers. All systems are working to the limit of their capacities. In most cases these contacts involve general advice, utilisation of existing credit lines or fresh loans from the respective savings bank. In 20-30 % of cases it is a matter of suspending interest and repayment of principal or of loan applications to access public support programmes. In total, the savings banks have suspended interest and redemption payments for more than 200.000 clients already and the numbers are increasing. Thus, emergency measures clearly are transmitted via the locally active savings banks.

Once more this is proof of bank finance based on local banking networks being quicker and more efficient than capital markets-based finance.

This crisis of the real economy could certainly become a problem for the euro area, if credit ratings of individual countries are lowered below investment grade, potentially leading to a further downturn of the European financial markets.

European solidarity will therefore be needed. Solutions must be balanced, acceptable and enforceable. A full mutualisation of public debt via so-called "Corona Bonds" does not appear to reach consensus. Without conditionality or other incentives, such a tool could indeed place too high a burden on all member states.

Yet, much more money will be needed. Innovative ways of financing those needs to avoid turbulences on the capital markets are necessary. Using the excellent credit rating of some member states could be made available via a guarantee, limited in time to EU countries with a lower credit ratings or countries having lost market access.

Such bilateral guarantee-relationships between countries of differing credit ratings could be a core element of the European recovery fund without the need of expensive equity. The default risk of such instruments would be lower than that of Corona- or Eurobonds. New or ongoing ECB purchasing programmes would also reduce risks for the guarantor of the bonds.

Based on these "Stability Bonds" solidarity on a European level could be provided. They would strengthen the crisis resilience of the whole euro area and have a stabilising effect on financial markets. The message behind those bonds would be that Europe stands together in times of increased financial pressure. But that Europe, unlike other currency areas, still keeps an eye on managing increased crisis-related debt levels, thus creating a solid foundation for renewed sustainable growth.