# Priorities for the financial sector in the post-Covid era


## Jean Lemierre

Chairman, BNP Paribas


## What are the priority measures that would enable the EU financial industry to contribute to a strong and rapid recovery in Europe?

About six months after the beginning of the Covid-19 crisis, which triggered a confinement that stopped the world economy, we can start to reflect on the lessons to be drawn.

As the economy was locked down, banks immediately responded by providing liquidity support to their clients, through moratoria, credit lines drawn, and other supports. It was accompanied by decisive and massive measures at European and national levels, considerable fiscal support, prompt resumption of the ECB asset purchase programs and TLTROs, as well as targeted measures to operationalize the flexibility embedded in the accounting and regulatory framework. The battle against the first phase of the crisis is now over.

This first phase has shown again the central role of banks in the functioning of the economy, from lending to payment and settlement systems, as bank staff worked hard to address the needs of their clients. It also showed the resilience of the European banking system thanks to solid capital and liquidity buffers. In practice, a massive number and amount of credit lines were granted to clients, in record timeline, thanks to the mobilization of European banks.

BNP Paribas has contributed to supporting the French economy, and all the clients, in particular European corporates, wherever they are based, in line with its European integrated strategy. This is « private risk sharing » at work.

We are now entering into a second phase of the crisis, as moratoria will come to expiry and State-guaranteed loans will have to be reimbursed in a time of recovery, mixed with a still negative economic and social impact. The dialogue with every single client will restart on a new base: while in some sectors, cash-flows are back to normal, and further lending support may not be needed, in others the crisis will have lasting and deep consequences. Some companies may default. NPLs will rise. Others will have the potential to continue their business, but their financial structure, loaded with debt, will require equity or quasi-equity injections. Finally, some sectors may be the winners of the crisis, and will contribute most to the recovery, and those companies will need more lending to finance their investments, including, according the Commission's priorities, to speed up the Europe's green and digital transition. At the same time, it is crucial to implement quickly the European Payment Initiative (launched by 16 banks from 5 countries) to ensure the European sovereignty.

> *We count on a continued dialogue with authorities, focused on the need to support the economy and the employment, to win the second battle.*

Again, banks will be at the core of the response. They have a unique client knowledge and risk analysis capability. But banks have, as in the first phase, to rely on authorities to implement the relevant measures in a decisive and agile way to ensure their role is not hampered by counterproductive rules in the current economic situation. We warmly welcome the July EU decision about the landmark Corona virus recovery package, which is a major and decisive step forward.

Full implementation of Banking Union, without any fragmentation, maintaining flexibility of the rules as needed to ensure an efficient funding of the economy, true relaunching of securitization are examples of points where regulation will need swift and pragmatic adaptation.

More subjects will certainly appear as the situation develop.

We count on a continued dialogue with authorities, focused on the need to support the economy and the employment, to win the second battle. ●


# Christian Sewing

Chief Executive Officer, Deutsche Bank AG


## A partnership for growth: financing recovery and growth in Europe

The German Presidency of the European Council comes at a critical time. In the midst of the unprecedented global health challenge of the COVID-19 pandemic, Europe needs to focus on recovery and averting an economic crisis. The financial sector has a critical role to play in supporting recovery and, in partnership with governments and regulators, can ensure that recovery is aligned with the strategic objectives of a digital and low carbon Europe.

The EU financial system has proved resilient in the face of the extraordinary economic challenge posed by COVID-19. This was the first real test of the regulatory reforms put in place following the financial crisis of 2008 and, for the most part, the new regime worked as intended. Capital and liquidity buffers provided the cushion required to absorb the initial shock and banks have been able to provide significant additional lending to support the economy, whilst markets have continued to function. Prompt action by regulators to provide targeted relief from aspects of the regulatory regime ensured unhelpful pro-cyclical effects have been avoided in the short-term.

However, the economic fallout from the pandemic will continue to be felt for some time and that will put pressure onto a European financial system which was already facing headwinds. Long-term negative interest rates, tensions in international trade (including Brexit), structural challenges arising from digitization of finance and competition from non-financial technology companies, as well as inflation in resolution fund contributions, pre-dated the COVID crisis. Pressure will increase as emergency government support packages are withdrawn and insolvencies of companies and households will inevitably surge.

The European financial sector, particularly the banking sector, wants to support immediate recovery and deliver the investment required to put Europe on to a sustainable growth path. But we cannot do it alone – or under the current regime. Europe needs action with political and regulatory focus on reform in the following key areas:

1. **The Banking Union needs to be completed and its benefits realised.** This is essential to underpin the efficient operation of the banking system and to remove the deadweight cost of trapped liquidity and capital within the Eurozone. It is also critical to facilitate consolidation and rationalization within the EU banking sector necessary to support profitability and growth of capital to support lending.

2. **Changes to the EU capital regime should be paused** until the impacts of COVID-19 are clearer. The existing framework has proved robust and Europe should coordinate with other regions in taking forward implementation of final Basel III rules.

3. **The Capital Markets Union must become a reality.** Deep and liquid capital markets are critical to deliver efficient finance, cost effective risk management and access to international investment for European businesses. In the short-term, developing an active securitization market in the EU could play a critical role in freeing up bank balance sheets to support new lending and allowing them to manage the challenge of increasing NPLs. The package of proposals published by the European Commission on 24 July is an important first step to delivering some of the changes required to enable capital markets to support recovery, but further bold steps will be required to achieve real change.

> *Change will require political ambition, policy vision and a strong partnership.*

4. **The ambition for a true digital single market must be delivered.** To realise the opportunities afforded to European citizens and business of digitalization there needs to be legal and regulatory certainty, but also consistency across Member States. A fragmented legal and regulatory environment will undermine scale efficiencies, disincentivise innovation and open the door to regulatory arbitrage.

5. **The framework for sustainable finance needs to be further enhanced.** The EU has taken a lead in legislating to support the shift to a low carbon economy with the green taxonomy and climate disclosure requirements. The COVID recovery provides an opportunity to accelerate that agenda. Regulatory incentives need to be put in place to encourage the flow of sustainable projects and to support the development of new channels of 'green' finance.

To achieve this change will require political ambition, policy vision and a strong partnership between public and private sectors.


# Helmut Schleweis

**President, Deutscher Sparkassen- und Giroverband (DSGV)**


## Recognising and ensuring the stabilising effect of smaller banks

The Corona pandemic caused severe economic damage affecting the financial health of many households, businesses and the self-employed. This has made comprehensive recovery necessary and triggered immediate and important policy and supervisory measures on EU and national level. Among them, the various government programmes, the easing and postponement of regulatory measures and of course the EU aid package "Next Generation EU". As for the latter, the Savings Banks Finance Group welcomes the framework and conditions foreseen as they display a clear sign of European solidarity between Member States, leave room for subsidiarity and proportionality, encompass accountability as well as shared control – and they are limited in time and size.

Throughout the exceptional situation in which we find ourselves, the EU banking sector was able to prove that it is part of the solution. The saving banks played an essential role within the German financial infrastructure. They made a major contribution with new financing, extensive advisory services and forbearances, preventing the otherwise inevitable economic collapse of many companies and small businesses by providing them quickly with liquidity.

Once more, this proves the stabilising effect of small- and medium-sized banks to the economy in times of crisis. And it emphasises the need for regulation that recognizes the existence of smaller and locally rooted banks by applying the principle of proportionality. Decision makers should have the importance of the diverse EU banking sector in mind when responding to the current situation, but also when shaping the regulatory framework of tomorrow:

- It is vital now that institutions are able to make optimal use of their equity to finance the real economy. When looking at proportionality within the prudential framework, there were already important steps taken at EU-level during the previous legislative term. Regulators will have the chance to continue that road with the finalisation of the Basel III package allowing to calibrate regulation more stringently to match the size of institutions. At the same time, the effects of Basel III should be under strict scrutiny as they could contradict the efforts to the economic stabilisation of Europe's national economies. Furthermore, the functioning of the existing regulatory framework during the crisis should be evaluated and where necessary, lessons should be drawn.
- Maintaining the diversity of the EU's banking sector has to be a guiding principle for every step taken in further shaping the Banking Union, be it with regard to supervision, crisis management, or deposit protection. The European Deposit Insurance Scheme (EDIS) as proposed by the European Commission would certainly not be helpful in this regard, as it leads to further centralization and transfers, increases contagion risk and moral hazard. Going forward, the debate should rather focus on the stabilising effects of existing schemes, which already are harmonised according to EU rules.
- A diverse European banking sector would also help to progress in another area of vital importance: tackling environmental issues by financing the necessary transition in a sustainable way. Ecological strength needs to be well-balanced with social and entrepreneurial powers. Local banks can considerably contribute to this balance and thus support European resilience.

> *In times of crisis locally active banks showed their strength in supporting businesses and private individuals.*

- Despite all the understandable efforts made to improve access to the capital markets for businesses, credit financing must not face discrimination. Loans are the most important source of finance for European businesses – and this holds particularly true in times of crisis, where the relationship between house banks and borrowers, the possibility of deferrals and payment moratoria prove essential. These flexible and rapid responses are not available in the capital markets, where we often see a high degree of uncertainty among investors leading to increased volatility.

For all the above, we will need to find the proper regulatory environment, by providing the right incentives, enabling innovation, striking the right balance and allowing for a well-functioning financial services sector. Thus, the German savings banks and their partners in the Savings Banks Finance Group can make their full contribution to our joint efforts for an economic recovery. ●