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Relaunching productive investment in Europe

The impact of COVID-19 as an extraordinary health and economic shock will likely be felt for months and years to come, with the long-term socioeconomic repercussions still unknown. As Europe pivots to a recovery phase, a strengthened banking sector, a continued drive towards Capital Markets Union (CMU) and preparing workforces with skills for the future will serve as the foundations for relaunching investment, and reigniting growth and job creation.

Throughout the crisis, banks such as ours have stood ready to help governments, our employees and our communities across Europe. In the first half of 2020, we prudently raised $1.2 trillion of extensive credit and capital globally for consumers and businesses of all sizes aimed at working capital and general corporate purposes, and provided governments with business expertise to help the recovery. In short, this demonstrates how banks, including those with headquarters outside the EU, fulfill a vital role in supporting the economy.

Yet concerns remain around the impact of non-performing loans (NPLs) on banks' balance sheets. Experience tells us that dealing with NPLs and ensuring banks' financial strength is critical to economic recovery. An improved EU securitisation framework, as recommended by the European Commission's High-Level Forum (HLF), could help. When developed in such a way as to be responsible, prudentially sound and transparent, securitisation can act as an important vehicle to increase the capacity of bank lending and investors' access to European credit products. This is no less the case for NPLs, and could help banks de-risk their balance sheets.

We appreciate there remains a degree of scepticism surrounding securitisation as a consequence of the global financial crisis over a decade ago. However, the HLF, of which my colleague Vittorio Grilli was a member, outlines how the securitisation framework can be improved through better credit underwriting standards and NPL reduction, providing an increased scope for synthetic securitisation and a clearer role for Competent Authorities in Significant Risk Transfer assessments, as well as increasing clarity around disclosure and due diligence requirements, including in relation to third-country securitisation issuance. There is also the opportunity for the EU, alongside other global prudential regulators at the Basel Committee for Banking Supervision, to revisit the capital and liquidity treatment of securitisation issuance.

Critically, as well as encouraging cross-border investments, a better securitisation framework could specifically support the financial needs of SMEs, the growth engines of Europe, as well as acting as the bridge between the Banking Union and CMU.

We are also supportive of the HLF's broader CMU recommendations, in particular the need for a review of disclosure rules to improve retail investors' decision-making, strong infrastructure to ensure that financial markets maximise their role in funding the real economy, increasing Europe's role in developing a coordinated and consistent global regulatory framework, and improving financial health and literacy across Member States to increase retail participation.

It is worth bearing in mind that productive investment and growth are not just enabled by the traditional financial services domain of banking, lending and markets activity. They are also driven by a competent and diverse workforce equipped with the relevant skillsets for a changing world of work, which is also essential for rebuilding economies and supporting communities most affected by COVID-19.

At J.P. Morgan, part of our philanthropic efforts in Europe focus on helping adults adapt to the future of work through reskilling and upskilling for the digital transformation, supporting young people with skillsets for career readiness and providing upskilling pathways for vulnerable workers. We welcome the launch of the European Skills Agenda to upskill and reskill young people and adults for a digital and green world of work and to unlock public and private investment in educational and vocational training.

As the crisis recovery continues to evolve, the financial industry must continue to work in partnership with local organisations, governments and civic society to lend our resources and expertise toward solutions for recovery and help relaunch investment across Europe.