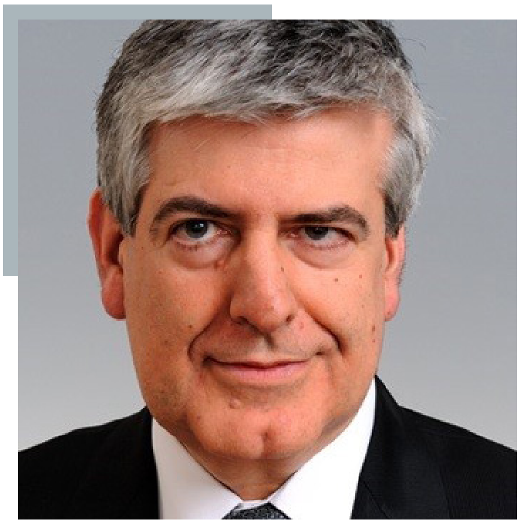

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Unusual crisis, unusual measures, big challenges

In November 2020 at the ECB Forum, in the recent past ordinarily held in Sintra, Portugal, the President of the ECB, Christine Lagarde classified the economic crisis caused by the COVID-19 pandemic as being a "highly unusual recession".

This is undoubtedly a deeply uncommon crisis for having originated in a pandemic (something we knew could be a real risk, but in fact only admitted in the abstract), due to its global and strongly synchronised nature, for a supply and demand shock materialising simultaneously and, of course, for the dimension of the damage caused to the economic and social environment.

But the response of the political, economic and supervisory policymakers has also been uncommon due to its speed, the high degree of convergence and coordination at Portuguese and European level, and to the fact that different instruments were used in hitherto unseen dimensions: monetary policy and budgetary policy, as well as employment policy, social policy, regulatory and supervisory policy.

In regulatory and supervisory terms, macro and microprudential instruments were used, and similar action was taken in terms of conduct supervision.

Acting in this way produced results that were very positive inasmuch as they avoided greater ills: financing capacity to enterprises and households was maintained and liquidity was ensured, productive capacity was preserved, more drastic falls in employment were avoided and drops in income were mitigated. On the other hand, the approval of an unprecedented volume of European funds to support the recovery of the European Union's economies, a large part in the form of straight grants, gives credence to forecasts for growth in the near future.

We should learn a lesson from this fact: the instruments at the disposal of public authorities are quite powerful if managed in a timely, coordinated and convincing way.

We are still at a stage of the crisis where we are hostages to the health situation and developments in the pandemic. This means therefore that we are in a situation of high and atypical uncertainty. The vaccination process, notwithstanding its difficulties and setbacks, has changed expectations for the better, giving a feeling of hope even to those sectors most affected by the pandemic, that is, those that depend more directly on people's mobility.

We know that a recovery path is forecast for 2021 and 2022, but its real dimension is still quite uncertain.

The European banking sector is currently much more capitalised and robust than during the financial crisis and therefore much better prepared to take on the pandemic-induced crisis. For example Portugal has seen a significant reinforcement of capital ratios in recent years, a very considerable improvement in the quality of credit portfolios, a structural adjustment in liquidity that reduced the system's vulnerability to changes in international investors' risk perceptions, a significant reduction in operational costs and even a gradual recovery in profitability.

We do not know yet the depth of the structural changes that will be caused by the present crisis. How will consumers behave? How will investment be encouraged, especially in the private sector?

With the data already known, it seems clear that the asymmetries and inequalities tend to intensify within each country and across the European Union. If it is true that the effects of the pandemic crisis are cross-cutting, they are, however, quite far from being symmetrical, given for example the different composition of the economies of each Member State, clearly penalising those economies most dependent on tourism. In this context, it will be difficult to understand why the banking union is not completed sooner.

The global geopolitical framework is also at a stage of notable tension and readjustment, which in itself is a factor of instability.

Even if the most optimistic scenarios come to fruition, the near future will be very demanding for the European banking sector. The pressure on profitability and asset quality, for example, will be high.

The time we live in requires banking management much more focused on each customer, their problems and potential. In turn, Portuguese and European authorities must remember that to be successful in their policies, notably in defining a moratorium exit strategy, they will once again have to be timely, coordinated and convincing.