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

Since the beginning of the Covid-19 crisis, banks have provided support to their clients, through moratoria, credit lines drawn, and loans, with or without public guarantees. The economy was also supported by 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. From a policy standpoint, this response to the crisis has been a success, with corporate bankruptcies still at a low level, job losses contained, and financial stability maintained, despite the unprecedented drop in EU GDP.

While we can see positive signals of recovery in 2021, notably given progress in vaccination, uncertainty remains high, and the crisis will have profound impacts in some sectors, while others will show robust recovery potential. Banks will again be at the core of the new phase, unavoidably affected by some rise in NPLs, and at the same time actively involved in financing liquidity needs, consolidating debt, and providing equity or quasi-equity to enable viable corporates to absorb the shock and invest into the future recovery. While regulatory and fiscal support is likely to be progressively phased-out, monetary policy is expected to remain accommodative to support the economy but will continue to weigh on bank's earning generation. EU and national recovery plans must be deployed urgently to boost growth and job creation.

The experience of the last year has shown the resilience of diversified and integrated bank business models, which have benefitted from a more robust earnings generation capacity and have been able to gain market share by supporting their clients across a broader range of financial needs, from cash to capital markets. Diversification as a factor of resilience is not embedded in the regulatory framework, which rather penalizes size, and should be taken into account by supervisors.

EU banks' earnings generation capacity is already affected by the combination of structural (competition by unregulated entities such as non-banks and BigTechs) and conjunctural (low/negative rates, decreasing credit quality and NPLs) factors. Such earning streams should be mobilized by the banks to the benefit of their clients, to restore a productive, innovative, job-creating, and greener economy.
For banks to continue to efficiently support the European economy, they should not be handicapped by unnecessary regulatory pressure that would have recessive effects:

- Contributions to the Single Resolution Fund should not be inflated by the significant increase in deposits resulting from the abundant liquidity creation by the ECB, and the flexibility embedded in the regulation to increase the IPC from 15% to 30% should be used.
- The Basel finalization package needs to be implemented in Europe in the respect of the "no significant capital increase" mandate, respecting the European specificities and the level playing field with other key jurisdictions, notably as regards to FRTB.

In the current environment, this is also crucial to ensure Europe's financial sovereignty, preserving the capacity of European banks to serve sovereigns and corporates, in the highly competitive capital markets activities.