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“Recovering from the crisis: a financial sector perspective”

“The Recovery Plan for Europe: what is in for financial services?” with Sean Berrigan (Director General, DG FISMA) and representatives from the financial services industry

Hosted by Prof. Danuta Hübner

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We are meeting in a moment when the buzzword is still uncertainty. More than four months ago the sky fell on our heads without much of a warning or maybe we did not know how to read the warning. It hit us all, we are all in one boat, no sector spared, no place to hide or relocate. From economic point of view the hit affected both demand and supply sides and economic disruptions are broad based.

We will be steering our economies through troubled waters for a while. In the EU, first immediate reactions of public authorities came at national and European level, with a variety of national measures, in many cases supported by existing European instruments. Mostly related to available budgetary means and exiting regulatory flexibility.

Common concern was to protect jobs, address risks to liquidity and look at possible regulatory relief.

National prescriptions for preserving employment were different. Some member states offered support to fired workers, others supported businesses to maintain employment. Time will show who was right, which choice was smarter and more effective.

What we quickly understood was the importance of European level support, which could handle better visibly diverging consequences at national level. Even though the shock was in principle symmetric, its consequences often linked to the structural characteristics of the member states, regions, sectors, fiscal situation or institutional quality of the intervention were different. One could say that this first line of defence offered by national governments was not sufficiently coordinated. Rather due to the nature of competences than political will.

If I think of the logic of survival supporting action initiated by the European Commission, it has been focused on both directly providing public support and/or enabling it. The first survival targeted wave of public action came at European level through reaching out to already existing measures, exploiting fully the flexibility of rules on different European policies, in particular those based on European budget, relaxation of state aid and economic discipline rules, involvement of EIB financing channels and unprecedentedly very quick response of the ECB.
In this first survival phase, the action took place on basically all fronts.

Still, what we see in the summer forecast of the European Commission is that recession will be deeper and rebound will come later than was expected, and differences among member states persist as they are structurally different and have different capabilities to act. This brings risks to integrity of the single market.

Of course, any forecast is based on assumptions and currently they carry huge uncertainty and risk. The need of repricing of risk across economy and financial sector is an issue for many sectors in financial industry. Risks are also created by global situation, global trade contraction, protectionist temptations, geopolitical challenges.

We survived and we move now toward making decisions about the future. But there are of course lessons learnt from what is already behind us.

Our approach to the recovery phase include an effort to orchestrate well the creation and the use of measures supporting growth, reforms and long term resilience.

As we are moving toward more long term thinking and creating strong foundations for recovery and resilience, we see with more clarity and realism the importance of market based financing, the role of private companies in creating jobs, the need of openness and the role of international trade.

At EU level we are going to have for the recovery a combination of MFF and a resilience and recovery facility aka NewGenerationEU. There is a strong political dimension to this process and it is not difficult to envisage that it might be difficult to reach agreement on the future among European institutions and among member states. There is a well-known clear list of dividing lines on substance of this big financial package and its geography.

Today Charles Michel presented publicly a new version of the package. Next week will be key for the agreement among the member states and then the EP will show its muscles. Agreement should be reached before the end of July. There is a general consensus on combining two legally separate packages, MFF of most likely slightly more than 1000 bln euro and RRF, amounting to 750 bln euro to come as a loan or a series of loans from the financial market. There is, however, lack of agreement on the final size of the MFF, on proportion between grants and loans, on repayment schedule, on conditionality, as well as convergence objective. What seems not to be questioned is that we must not depart from priorities agreed before Covid as the main direction toward future. In general the plan is to stick to Europe which is climate friendly, socially sensitive, globally competitive and committed to rule of law and democracy. The summer forecast, and the recovery plan if adopted, confirm that massive investment is needed to get us out and take us in the right direction. It does not take a Nobel prize winner to figure out that we cannot do it without involving financial market participants and market based financing. This must be an important element of our road to recovery.

Fortunately, broadly understood financial sector managed to stay in a relatively good shape.

Accompanying you in your efforts regulators, supervisors, legislators have been active since the day one of the Covid 19.

My understanding is that the mission of the financial sector is not only financing, but also maintaining its financial stability and securing its global competitiveness of the industry. So this time around financial sector is a solution not a problem. It sounds like a boring slogan but it is important that we stick to it.

The purpose for us today is to look at recovery of European economy from the point of view of financial sector. There are opportunities and there are risks. An adequate legal environment is needed. There is good experience of last months when legislators worked speedily hand in hand on CRR quick fix, CCP R&R, MIFID. There is administrative burden to be reassessed. There is the global competitiveness issue and we should not ignore what is being done in other jurisdictions. We will be functioning in an environment of massive global quantitative easing. As of next year, there will be European debt put on the market of 750 bln euro denominated in euro, guaranteed by a headroom created by an increase in own resources ceiling to 2% of EU GNI. There is the need to maintain AAA rating for the EU. And, for all our actions the question of time and speed of moving forward is key. We talk mostly about reducing burden, simplifying, getting rid of barriers. It there is as well the issue of possible incentives to market participants. Equity to debt ratio is often raised in discussions. The need of funding companies at all stages in their life is often raised when we talk to European manufacturers and SMEs. It is not in our interest to continue being an incubator for other developed economies. We all know that deep, competitive CMU will not emerge overnight. There is the question of supporting advanced technology European firms whose share globally is very small. We need new sources of financing. We need to keep Europe attractive for global investors.

European economy will not make it beyond survival and through recovery without financial sector. It is in the interest of all of us to see that you are in good shape.