Learning from European cooperation in the field of financial stability

Claudia M. Buch, *Vice President, Deutsche Bundesbank*
Sylvie Goulard, *Deputy Governor, Banque de France*
L. Federico Signorini, *Deputy Governor, Banca d'Italia*

The Corona pandemic exposes the fragilities of our societies and economies. Policymakers at all levels are taking decisive action to protect firms and households. Common European action is highly desirable and feasible. We need to evoke the positive forces that give us strength. We need to find pragmatic solutions. European cooperation is indeed working better than often claimed. Financial stability is a prominent example: a lot has been achieved since the global financial crisis. We can be proud of these developments and learn from this experience.

Many people are asking themselves "what is the EU doing to tackle the crisis?" In our policy field, financial stability, a lot is being done.

A well-functioning financial system is not an end in itself. It is there to make the economy work; to foster sound investment and saving; to ensure safe and efficient payments.

Prior to the outbreak of the pandemic, the resilience of the banking sector had been strengthened, thanks to the reforms of the past decade. European and national supervisors have now been able to release buffers of capital and liquidity in order to allow banks to lend more. Supervisors also recommended to financial institutions not to finance payouts, in order to increase their resilience. All this has been done by exploiting flexibility in the rules; it does not mean reversing the reforms, which have made banks more robust ahead of the crisis.

In line with their responsibilities and mandate, the ECB and national central banks have acted promptly and decisively to avoid a downward spiral in price expectations and to ensure a smooth flow of liquidity to firms and orderly conditions on markets.

If the crisis was of a limited duration, measures to maintain liquidity in the economy might be sufficient. The longer it takes to return to normality, the higher the risk that firms become over-indebted; instruments that protect the liquidity of firms through the provision of credit may not be enough.

Targeted fiscal and health policy measures are essential to address the root of the problem. Many authorities are doing their part. EU member states have acted to offer support to firms and households. The EU Commission has relaxed state aid prohibitions and suspended, as foreseen in the legislation, the Stability and Growth Pact. It has decided to stick to the Green New Deal and is working on a recovery plan. Nothing in this puts the need for long-run sustainability of public finances into question.

Perhaps understandably, the peoples of Europe have turned first to their national (or regional) governments for immediate response. Consensus however is growing that a piecemeal, uncoordinated approach to tackling the health emergency is highly inefficient. Common action is highly desirable and feasible, in terms of health policies, economic policy, and financial stability.

A lively debate is taking place on common European financing mechanisms. Agreement has already been reached on key issues at the political level. The choice of implementation instruments is for political leaders, not for us. From a financial stability prospective, let us only stress that there is a strong case for joint, pragmatic, non-ideological action.

We share a common currency; our common prosperity is based on a Single Market providing free movement of goods and services, people and capital. Nobody would gain from a disruption.

Domestic decisions and developments reverberate across borders. The bulk of total trade of European countries is intra-European. Severe disruptions of real economic linkages and supply chains disrupt production and increase unemployment. Shocks to income suppress demand not only domestically, but in other countries as well, as it reduces exports. Disruptions of intra-European migration have severe negative implications for sectors heavily dependent on foreign workers such as health, tourism, or agriculture.

We need to works towards maintaining and developing the European common good. We need coordinated solutions.

There will certainly be a discussion of what we learn from the current crisis. Perhaps other policy areas can learn from the experience in money and finance. The Eurosystem has shown that it can act as a truly federal institution. After the global financial crisis, new European institutions have been tasked with the supervision of financial institutions and with maintaining financial stability – in close coordination with the responsible national authorities.

Just as we need to discuss the right exit strategies and the coordination needed, we Europeans need also to be aware of our strengths. We share common values, which help us dealing with challenges facing our societies and economies, including climate change. We have extended health systems and social protections schemes. Effective monetary policy and financial stability institutions contribute to stability. We have what it takes.