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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

PUBLIC HEARING WITH ANDREA ENRIA
CHAIR OF THE SUPERVISORY BOARD OF THE ECB

BRUSSELS
TUESDAY, 5 MAY 2020

1-002-0000

IN THE CHAIR: IRENE TINAGLI
Chair of the Committee on Economic and Monetary Affairs

(The hearing opened at 11.01)

1-003-0000
Chair. – Now I welcome Andrea Enria, the Chair of the Supervisory Board of the ECB. This is a first appearance before this committee in 2020, but Mr Enria recently accepted, at very short notice, our invitation for an *in camera* ECON coordinators meeting some time ago, where we had a very fruitful exchange of views. So now he is back in this hearing, and I would like to thank him for his availability, which confirms the great cooperation that has developed between the Committee and the SSM.

The spread of the COVID-19 virus represents a dramatic risk to the health and lives of our citizens but will also lead to unprecedented shocks for employment and the economy in general in Europe. The COVID-19 outbreak requires rapid responses from Member States and immediate and innovative action from the European institutions to counter another deep and protracted economic crisis in the aftermath of the health pandemic.

The SSM has also been called upon to do so. In the last weeks it has already announced a number of measures to ensure that its directly-supervised banks can continue to fulfil their role in funding the real economy as the economic effects of the coronavirus become apparent and stronger almost on a daily basis. Capital and operational relief measures activated by the SSM amount to EUR 120 billion and, according to SSM estimates, could be used to absorb losses or potentially finance up to EUR 1.8 trillion euro of lending. Moreover, to boost banks' capacity to absorb losses and support lending to households, small businesses and corporates during the COVID-19 pandemic, the SSM asked banks not to pay dividends or buy back shares for the financial years 2019 and 2020 until at least 1 October 2020. Although this recommendation does not retroactively cancel the dividends already paid out by some banks for the financial year 2019, banks that have asked their shareholders to vote on a dividend distribution proposal in their upcoming general shareholders meeting will be expected to amend such proposals in line with the updated recommendation. This was an important recommendation, because it clarified once more that, when States are using banks to channel aid to businesses, this aid is for customers and not for banks, moreover, the SSM expected that capital conserved by refraining from dividend distributions and share buyback can also be used to support households, small businesses and corporate borrowers, and/or to absorb losses on existing exposures to such borrowers.

However, the challenges are not over. In the last years, we have made very important progress towards an integration of the banking system. It will be interesting to know if you consider the current framework adequate to face these challenges or if new institutions and new rules, and also new tools, will have to be put in place.

The same rules apply as to the hearing before, so I will now give the floor to Mr Enria for a ten-minute introductory statement and then we will have our Q&A session. Mr Enria, the floor is yours.

1-004-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Thank you very much, Madam Chair, and thank you for the opportunity to discuss the work of ECB banking supervision in these difficult and challenging times.

I had been scheduled to appear before your Committee in March to present the annual report on ECB banking supervision, but this was cancelled due to the pandemic, and there have of course been important and difficult developments since then. Nevertheless, the annual report is a rich source of information on our banking supervision and presents a comprehensive overview of our work, so if there are any questions today on the content of the report I would be happy to answer them.

In the introductory remarks in our annual report, I argue that European banking supervision was proving its value, that the idea of supervising banks at the European level was sensible and practical and that the pillars of our supervisory model were sound.

I think all this is even more true today, although since then we have witnessed an unprecedented global crisis, the consequences of which are still unpredictable. As I see it, the fact that we have now a banking union in place allows for a much more unified and timely response to this crisis than was possible at the time of the global financial crisis in 2008. All the decisions that you referred to have been taken with strong consensus within our supervisory board.

Also, unlike the global financial crisis, this crisis does not originate in the banking sector. And thanks to stricter European regulation and supervision in the aftermath of the global crisis, euro area banks have much stronger balance sheets than they had before 2008. But this crisis is already affecting banks in a number of ways. In this first phase, corporations and small businesses have been drawing significantly on credit lines. So far, banks' balance sheets have helped them to support businesses in this way. As supervisors, we have adjusted our supervisory work to the crisis and focused on ensuring that banks can continue to support the real economy in the future – and that they will also be able to support a recovery.

Much uncertainty remains as to how long this crisis will last and how deep it will be. The ECB published last week several scenarios ranging for 2020 from between minus 5% and minus 12% contraction in euro area activity, so there is still a lot of uncertainty.

On the positive side, we have seen decisive actions from the public authorities. National governments have introduced moratoria on payments of credit obligations and have provided public guarantees to ensure that banks continue helping small and medium-sized and large enterprises. I also welcome the EBA's guidelines on public and private moratoria that help us setting criteria to be fulfilled by these moratoria and so not to trigger forbearance classification and also to address some short-term liquidity difficulties arising from the limited or suspended operations of businesses and individuals as a result of the pandemic.

As a central bank, the ECB has also taken significant measures. ECB Banking Supervision – as you also mentioned, Madam Chair – has done its part, delivering a swift European response to the unfolding crisis. Our first decisions were announced on 12 March, only three days after the first nationwide lockdown in Europe.

This morning, I would like to further explain the reasoning behind our decisions.

First, let me clarify that the prudential measures taken by the Commission, the EBA and ECB Banking Supervision are all coordinated and complement each other. Second, there are important synergies between our supervisory measures and the ECB's monetary policy action as a central bank. And third, in combination with the very relevant measures announced by national fiscal authorities, they represent a very coherent package to support out economies in the difficult transition to recovery after the COVID-19 shock.

I will focus, of course, on the ECB Banking Supervision decisions. The basic idea behind all our measures was to support banks in continuing to provide credit to households and to viable small businesses and corporations hardest hit by the current economic fallout.

So how did we do this? When deciding whether they can issue a new loan, banks, of course, need to ensure that they have enough capital to expend on unexpected losses, and after the last crisis we worked hard to ensure that banks built up capital buffers in good times, when the economy was strong, to use them in bad times. Unfortunately, we are now experiencing such bad times. As the banking supervisor, we have therefore temporarily eased our expectations for banks' buffers, thereby using the flexibility available within the framework without undermining the previously agreed reforms. So we are working within the framework of the reforms.

This is why we announced that banks would temporarily be allowed to operate below the level of capital defined by what we call the Pillar 2 guidance and encouraged them to fully use their capital buffers, and this for as long as necessary. Further, we acknowledged that, in recent years, banks have made good efforts to hold large liquidity buffers. In line with international standards, these buffers can now be used in times of stress, even if this brings banks below the minimum level of 100% of the liquidity coverage risk, for example. We also made clear that banks will have ample time to rebuild these buffers after the crisis.

We have also observed extraordinary levels of volatility in financial markets since the outbreak of the pandemic. This pushed up the quantitative market risk multiplier, which can rise when market volatility has exceeded the levels predicted by a bank's internal model. While the international standards of the Basel Committee do provide supervisors with the possibility to smoothen such one-off events in market risk models, such provision is not fully available in our legal framework. Therefore, we took action to temporarily reduce the qualitative market risk multiplier. We will review this decision after six months.

As I have mentioned, euro area governments have taken important decisions too, such as introducing payment moratoria and guarantees on bank loans. In response, we have shown our supervisory flexibility regarding the regulatory treatment of loans receiving such public support, while maintaining proper risk identification practices and risk management incentives, which is of course key for us as supervisors.

Beyond prudential rules, you also need to consider accounting rules, which affect the financial statements and regulatory capital of the banks we supervise. Within our remit, so under our prudential mandate, in order to avoid procyclicality of regulatory capital and published financial statements, we asked banks to avoid procyclical assumptions in their expected credit loss estimates under IFRS 9, and this was coordinated also with ESMA and was validated by the Basel Committee and the International Accounting Standards Board.

We also provided some operational relief. Banks face significant operational challenges, and we have taken this into account. For example, we halted, for at least six months, the finalisation or implementation of various supervisory decisions. And we will also use full flexibility in evaluating the implementation of banks' ongoing plans for reducing past non-performing loans.

As I have said on other occasions, I believe that all of this support should not be a one-way street. This is a tragic and unprecedented crisis, which also requires a contribution from banks and their shareholders, and as you reminded us in your introductory statement, Madam Chair, the ECB has recommended that, at least until October 2020, banks should not distribute dividends to shareholders for the 2019 and 2020 annual reporting periods. Banks should also refrain from share buy-backs aimed at remunerating shareholders. It is vital at this stage to keep as much capital within the banking sector as possible.

Beyond the multiple support measures applied within existing rules, I also welcome the Commission's proposals to introduce targeted amendments to the Capital Requirements Regulation. The Basel Committee has recently agreed limited changes to the post-crisis prudential framework, which should be implemented, we think, in the European Union as well. This notably includes a delayed timeline for implementing the final elements of the Basel III framework. It is important to note that this change in the timeline should not affect the substance of the reforms. We remain committed to bringing these reforms across the finish line, as they embody important lessons learned from the past crisis which remain valid today.

The Commission's proposals also introduce additional adjustments so banks can further support the real economy, in the specific context of the unfolding crisis. I particularly welcome the revised treatment of publicly guaranteed loans under the prudential backstop for NPLs, in line with the supervisory flexibility that we are giving to the treatment of NPLs. This is a timely legislative proposal and I hope the negotiations among co-legislators will be completed swiftly.

Finally, a few words on what lies ahead. Our first goal has been to ensure banks can contribute to the recovery from this crisis, by continuing to finance households and businesses. At this point it is hard, as I mentioned, to accurately predict how the crisis will unfold. As prudential supervisors, it is our role to prepare for the worst and hope for the best. We are conducting an analysis of banks' vulnerability, taking into account different scenarios and hypothetical shocks without asking for any additional data to perform this exercise. This analysis will give us a good understanding of how the crisis could affect banks, where the greatest risks lie and what can be done to mitigate them. Also, our Supervisory Review and Evaluation Process for 2020 has been totally rewired to focus on the unfolding risks for individual banks and their ability to manage the crisis effectively.

More generally, we should also closely observe how the ongoing crisis is affecting our efforts to complete the Banking Union. Many support measures that affect banks' balance sheets are taken at national level, so there might be a temptation to develop policies aimed at protecting local establishments within countries and to unduly focus on their lending to national customers only. National bias in policy responses would not only perpetuate the segmentation of the banking sector along national lines, frustrating the key objective of the Banking Union, but it would also result in the crisis being managed less effectively by cross-border groups and, ultimately, hinder a swifter and more dynamic recovery once we have come through the trough of this crisis.

1-005-0000

Chair. – Now we move on to the Q&A session. I remind the ECON members that they have two minutes for the question and then we have three minutes for the answer. We will start with Isabel Benjumea from the PPE Group.

1-006-0000

Isabel Benjumea Benjumea (PPE). – Señora presidenta, muchísimas gracias señor Enria por su presentación. Yo quería centrar mi intervención en las pequeñas y las medianas empresas y en la importancia del acceso a capital, a liquidez, del tejido empresarial europeo para que así podamos hacer dos cosas: por un lado, detener la destrucción de empleo tan grave que está sufriendo la Unión y, por otro, crear las condiciones suficientes para que, en un periodo de tiempo breve, se pueda volver a crear empleo en la Unión.

En este sentido, le quería preguntar dos cosas. Una, en relación con la unión bancaria. ¿Verdaderamente cree que esta situación de crisis del coronavirus va a permitir avanzar de una manera más fácil hacia una unión bancaria real, en la que pueda haber una garantía de depósitos a nivel europeo? Y, en esa misma línea, en relación con la unión de los mercados de capitales —yo soy ponente del informe que está preparando la Comisión de Asuntos Económicos y Monetarios—, estoy convencida de que es una herramienta muy útil para permitir que muchas de las pequeñas y medianas empresas europeas puedan acceder a capital, puedan financiarse y puedan hacer frente de una manera más robusta a los retos que plantea la crisis.

1-007-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***. –** I would say that the response to the crisis is very much geared to serve the needs especially of small and medium-sized enterprises which do not have already well-established access to capital markets, because, in a sense, both the central banking monetary policy measures that *(inaudible)* access to funding. The supervisory relief measures say that the state guarantees should enable banks to provide very reasonably low-cost working capital, to fulfil the working capital needs of small and medium-sized enterprises and help them cross the desert of the transition to the COVID-19 crisis. I think that the measures are very much focused on this segment of borrowers. In the sovereign debt crisis, we have experienced a significant differentiation of the conditions with which SMEs could access credit, and indeed the banking union could be, to some extent, an alleviation of that issue. But we are not, as you correctly say, there yet.

There are still important elements missing, like the European Deposit Insurance Scheme. It is important not to lose focus on the final objective, which is the completion of the Banking Union, and also to allow banks to more smoothly operate with their capital and their liquidity on a transparent basis, because that would eventually benefit the availability and conditions of credit for SMEs and other borrowers throughout the Union.

As for capital markets for SMEs, I think the most important area of focus for us has been securitisation: having a well-functioning market for securitisation of SME loans. Also, the Banking Union would be an important contribution and progress has been made, but we are not yet in a situation in which these markets have been fully established on a sound and strong basis.

1-008-0000

Costas Mavrides (S&D). – Mr Enria, I will concentrate on just two points. First of all, we all thank you for the flexibility given to the banks at this time in order to respond towards the recovery of the real economy.

Here are my questions: I have noticed that on many occasions you have said something very wise – that this time, banks should be part of the solution and not part of the problem. For that reason, I guess, we have seen some unprecedented measures taken by the regulatory authorities. One of them is the temporary moratorium on payments towards the banks, and I guess we have that. The losses for the banks and the non-performing loans should have been much bigger. In fact, though, when it comes to that moratorium, there is a criterion based on which banks should notably not differentiate between debtors based on their credit-worthiness. Can you explain to us why they should use more broad criteria, not the credit-worthiness as such? I'd like you to explain to us what is the reasoning, the economic reasoning, behind these criteria.

My second question is about the case of those Member States where the private economy is fully indebted to such a high level that pushing more debt through a government guarantee might not be very wise.

I'd like to get your comments on those two issues, especially the first one.

1-009-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***. –** Thank you for your question. Temporary moratoriums are very important, basically. I mean the whole package of measures aims at putting the economy into a sort of hibernation, so as to allow as it were a sudden stop in activities, and also stopping payments of loans, but enabling small and medium enterprises, corporates, to continue paying their salaries, to continue paying their bills and the like. That's the whole construction. So it is clear that in this respect the moratorium should just be a freeze available to all customers and not something to be applied on a selective basis. The idea is that, of course, that these payments should recover their regular schedule after the crisis.

Let me say clearly, however, that we as bank supervisors are not asking the banks to suspend their key function in our economies – which is exactly to assess the credit worthiness of their counterparts when they lend. I mean all the measures, especially for new lending, should be targeting valuable counterparts that have a business future ahead of them.

In terms of the increase in debt and the reliance on debt, again the measures are enabling banks to access liquidity at very low or even negative rates at central banking facilities where the guarantees are being priced in general at very low levels so these benefits are being passed over to customers and should allow a relatively mild increase in indebtedness.

What is important again is that we maintain the productive capacity in place. The worst that can happen is for the inability of small and medium-sized enterprises, especially, to pay their creditors during this period to mean they would go out of business as there would be a destruction of productive capacity, so that when the distancing measures are withdrawn, then the economy would start on a lower growth factor. We should not destroy jobs, we should not destroy production capacity. That's the rationale for the measures.

1-010-0000

Chair. – Thank you very much. Before I give the floor to Luis Garicano, let me just say one thing. Mr Enria, the sound of your connection is quite bad and the interpreters have some problems in understanding and translating. If you could, in the next intervention, try to speak closer to the microphone or if you have an alternative microphone, we would appreciate it.

1-011-0000

Luis Garicano (Renew). – Mr Enria, thanks very much for being here. As you know, an hour and a half ago, the Constitutional Court of Germany made a ruling about the pandemic emergency purchase programme (PEPP) from the European Central Bank.

I am extremely concerned about this ruling. First of all, constitutionally, if the Constitutional Court is determining that it has primacy over Luxembourg's courts I am going to be worried for what Hungary and Poland and other courts are going to take from this precedent. That's not your problem.

But there is a big problem for the European Central Bank in financial supervision I want to raise with you. Basically what this decision does is it fatally potentially weakens the ECB's discretion. It says that the cover that the Luxembourg court used to provide, which is that broad discretion to do whatever it takes was supposed to always be available to the ECB. That's now gone.

It now has to motivate its action to the constitutional court. One particular aspect that worries me for your remit, which is supervision of the financial system, is that the ECB normally, in order to make sure that we don't fall into another doom loop, would need to act, potentially, in limiting the spread to a particular country. That is what the PEPP is about, specifically on the decision on PEPP. The bank says it is going to jump over the self-imposed limits on the 30% and on the capital key.

The Constitutional Court says that those self-imposed limits have to stay if the programme is going to be possible. So my question to you – I understand that you haven't had the time to evaluate the decision – is: if the PEPP programme is fatally weakened if the ECB has to stay on those previous limits – the capital key and 30% – can you guarantee the stability of the financial system without that and would we need to avoid a new doom loop. Otherwise, Italy or Spain or countries that that need particular intervention would fall under the outright monetary transactions (OMT) programme and request ESM assistance?

1-012-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – I am very sorry but *(inaudible)* an important ruling, which of course I've not had any time to look at, but let's say that the separation principle would make it very difficult for me to express any judgement or assessment today of a decision which impacts mainly on the monetary policy side of the ECB. So I cannot comment on that.

I can just say that, in terms of the stability of the financial system, again we have to be aware that we are starting from a very resilient banking sector at the moment. We have EUR 400 billion in capital, which is available even before hitting the capital conservation buffer and triggering measures to suspend payments. So there is a significant space in the balance sheets of the banks. They can, also thanks to the measures we enacted, significantly expand their balance sheet, and there are tools in the current framework that enable us to go quite far in terms of dealing with the crisis. As I mentioned before, we are doing a vulnerability assessment, which is trying to sketch out very different, and also severe scenarios, and we will try to see whether the tools that we currently have available would be adequate also in these severe scenarios.

1-013-0000

Antonio Maria Rinaldi (ID). – Dottor Enria, considerata la precedente sentenza della Corte di giustizia europea, dove il *quantitative easing* è stato considerato a pieno titolo uno strumento di politica monetaria, pertanto nelle attribuzioni proprie della Banca centrale europea, e non di politica economica, così come previsto dall'articolo 121 del Trattato sul funzionamento dell'Unione europea, e cioè il Trattato di Lisbona, il quale ne attribuisce la determinazione al Consiglio e alla Commissione, ma soprattutto per ribadire l'assoluta indipendenza statutaria della Banca centrale europea e dello stesso Sistema europeo delle banche centrali, non ritiene che i programmi di acquisto in titoli sovrani, in essere e futuri, debbano comunque procedere, a prescindere – sottolineo a prescindere – da qualsiasi posizione che assumerà la *Bundesbank* per adeguarsi alle decisioni della Corte di Karlsruhe, in agenda proprio oggi?

Per dirla, proprio in ultima analisi, in parole estremamente semplici: la decisione della Corte tedesca, qualsiasi essa sarà – e la valuteremo per l'appunto in queste ore – può essere un'ottima occasione per ribadire finalmente l'indipendenza statutaria della BCE? Questo è il vero problema.

1-014-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – As I mentioned in my reply to Mr Garicano, it is very difficult for me. I cannot actually intervene on monetary policy or monetary policy issues – I mean the formation principles forbid me from doing so, and also I would not be competent enough to provide such a reply. What I would simply say is that the independence of the Central Bank is enshrined in the Treaty provisions, and also the independence – which concerns us – of the supervisors is in the founding regulations that have established a sense, for sure, that the European Central Bank will act in full *(inaudible)* of its independence powers. I'm sure of that.

1-015-0000

Ernest Urtasun (Verts/ALE). – Mr Enria, you have very well gone through the different measures that have been taken in order to ease the activity of the banks during the pandemic. We have a certain number of subsidies granted by the ECB with the negative interest rate and the deposit facility, the regulatory easing measures that you have explained also by the Single Supervisory Mechanism (SSM) today as well. We have the Commission proposal, plus the national guarantees on lending. Taking into account all this and all these facilities, I want to ask you about the restriction on the distribution of dividends. So far, only a recommendation has been issued, and I would like to ask you whether, taking into account all these measures, it would not be necessary to issue and to apply a mandatory measure in this regard, as it is allowed in Article 104 of the Capital Requirements Directive? This is my first question.

My second question is whether you have already considered applying early intervention measures in line with the provision of the BRRD and the SRMR, to solvent but more fragile banks that could be entering into difficulties, particularly the banks that are under your supervision?

1-016-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – On dividends, yes, you're right, it's only a recommendation. A recommendation is an important tool. It is published in the Official Journal and it carries a lot of weight, and I'm pleased to say that our recommendation was widely followed by the banks under our direct supervision and also that national competent authorities have expanded the remit of this recommendation also to the less-significant institutions with a very, very wide coverage. We considered mandatory measures but we maintained them only as a fall-back in case banks were not able, or willing, to comply with our recommendation. The information we have, is that most banks have actually complied with our recommendation and that the only cases in which banks have not suspended the payments are cases in which actually the general meetings of shareholders had already taken a decision, and the legal corporate law in the countries where this happened did not allow the banks not to pay - that would have been a case for triggering a default of the bank. There are some cases in which the dividends had already been paid and some other cases in which the assembly had already approved the payments, and in those cases we couldn't stop the payments. But in all other cases there has been very good discipline. From the information we have right now, there were 35 billions of dividends that were supposed to be paid, and more than 27 billions have been fully retained for the moment in the banks' balance sheets, and that's an important result.

In terms of the application of the early intervention measures, of course, we apply early intervention measures not only now, and we will always apply early intervention measures when we see certain triggers being hit by banks. Maybe here, let me take the opportunity in front of the Parliament to bring to your attention that the ECB is already raising the bar. The fact is that currently there is an overlap between the early intervention measures which are defined under the Bank Recovery and Resolution Directive and the ordinary supervisory measures which are defined in the CRR and in the SSM Regulation and that sometimes these two sets of measures overlap. In one case it's a directive which is implemented in different ways across Member States, and in the other case, it's more ordinary measures and goes to a regulation. We have always advocated for better coordination of these measures, bringing also intervention under a regulation and by making clear the distinction between the two. Because when you have an overlap, you are almost legally bound to give preference in general to the supervisory measures, which is less intrusive. This has led to *(inaudible)* than probably would have been needed.

1-017-0000

Derk Jan Eppink (ECR). – Let me first of all say, in reply to the remarks of Mr Garicano, that I do welcome certain parts of the ruling of the German Constitutional Court.

I think it is very good that certain conditions and requirements like the capital key, the capital limit of 33% and also the fact that the Governing Council of the ECB should redo parts of its work and the German Parliament finally also gets a say in all this.

So if the PSPP is partly *ultra vires*, I'm sure that the initiators of this procedure in Karlsruhe will now try the PEPP which has recently been launched by the ECB because that programme is entirely *ultra vires* and also to see where that is in line with Article 123 of the Treaty. Do also remember that the German Constitutional Court has to assess whether the programme is in line with the German Constitution, so it is not European law.

A question I would like to ask Mr Enria, is: are the bank recovery plans, in your view, adequate enough to cope with the aftermath of this crisis, and if yes, upon what facts do you think so?

1-018-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***. –** Well, bank recovery plans have been improved significantly in recent years. We are now, in the last declaration, which I saw last year, we are still asking banks to strengthen their recovery plans, but we are increasingly pleased with the progress that banks are making in considering recovery options. There are still elements of shortcomings, which of course are different from *(inaudible)*, but these recovery plans have significantly improved.

So all in all, let's say they are useful tools. They have helped focus the attention of banks' management and banks' boards on the possible need to tackle difficult market conditions and they've been strengthening very much. They are also linked to some extent in connection with the previous question on possible measures that the supervisors might then take. So we definitely, as the banks' situation deteriorates, monitor that the recovery plan options are still available and can be used, and then these can lead to specific measures when we are convinced that those options would not be sufficient anymore.

1-019-0000

Mick Wallace (GUE/NGL). – Last week, Philip Lane, who is on the Executive Board of the ECB, said that it's critical that financing conditions remain highly accommodative so that households and firms are not only able to weather the impact of lockdowns, but can also obtain funding on favourable terms to finance consumption and investment once we enter a recovery phase.

During the recession that followed the banking crisis, the ECB gave a lot of money to Irish banks in order to kick-start the economy. But in actual fact the banks stayed closed for several more years to small businesses in Ireland.

Now you say that the banks are more resilient this time around, but what can you do to stop the same scenario happening this time? Do you have the capacity to put manners on the likes of the Irish banks?

Secondly, while the ECB has massively increased its purchases of both sovereign and corporate bonds in response to the coronavirus crisis, it has shied away from discussing the possibility of helicopter drops that hand central bank money directly to businesses or individuals.

Constitutional courts and Treaty rules aside, do you not think that central banks need to directly fund government deficits? Countries like Ireland, Italy and Spain don't need more debt, and there's going to be a huge problem if they're saddled with a lot more debt and if they don't get the help that they need to get out of this crisis.

They need help, not more debt and they need it in the form of grants. All rules are broken whenever it seems to suit, as far as I see, and where there's a will there's a way. Is there any way that they can actually take this approach, or are you just hiding behind the rules?

1-020-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***. –** You touch on an important point. Again, let me reiterate the point that I think that the three components of the response to the crisis create significant conditions and incentives for banks to lend. These are the very accommodating monetary policy measures in terms of funding for banks, the relief measures which have been adopted by the supervisors, and the government guarantees which have been put in place by national governments for borrowers and for the support of small businesses, corporates and households.

We don't yet have very hard evidence of what the behaviour of banks is, but the first element of evidence is the results of the bank lending survey that were published by the ECB last week. What this lending survey says is that basically in the first quarter of 2020, banks have tightened the lending standards much less than they did in the first months of the financial crisis and the sovereign debt crisis. It says that they expect a significant increase in the demand for loans in the second quarter and they expect an easing of the lending standards. So in a sense, the indications that we get at this moment are that banks have to some extent – it's also interesting to notice that they shifted and significantly increased their short-term lending, which is exactly what was requested of them to finance the working capital, in particular of small businesses. So to some extent, it's very preliminary evidence, but what we've seen so far is that banks are accommodating the increase in the demand for loans, that the tightening of lending standards has been on a very modest scale, not comparable to the previous crisis, and that, as long as the new measures have come into place, banks expect to ease their lending standards and accommodate the growing demand for loans that they see ahead of them.

On the second question, again, I cannot intervene specifically on the issue of grants versus loans. I realise the issue of trying to prevent an excessive increase in debt at this juncture, especially for counterparts which are already heavily indebted, but again, the issue of the conditions on this lending and, especially for corporates and small businesses, the relatively short tenure of these loans should enable the main purpose to be fulfilled, which is to bridge until the end of the social distancing measures.

1-021-0000

Chair. – We have one request for catch-the-eye, so I give the floor to Maximilian Krah (ID).

1-022-0000

Maximilian Krah (ID). – We now have the problem that the recession will hit the south much more than the north. And the problem is: how do you think can the south gain competitiveness again in one single currency?

The problem remains that we have different types of economy in the eurozone and the question to you is: do you have scenarios, do you have plans for a euro of two speeds – a north and south euro – so that we, in the long run, can increase competitiveness in the south to stop those transfer payments from the north to the south, which, if we don't find another way to increase competitiveness in the south, will last forever?

I'm not so much interested in your short-term firefighting measures, but what is your long-term strategy in the face of the problems we see now and which will become deeper and deeper, especially through this crisis?

1-023-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank***.** – Again, I will remain within my remit, so I will talk about banks and supervision because that's my main business.

We are in a Banking Union. We are in a Banking Union, and if you look at the way in which bank unions work in other circumstances, for instance in the US, the banking sector provides an important channel for redistributing shocks which hit particularly hard one area of the country compared to the rest.

For instance, if you have a banking crisis in, say, Nevada, as was the case a few years ago, you have mechanisms that enable the assets and liabilities and branches of the banks going under crisis in that state to be bought by banks coming from other states, for instance. And this enables risk-sharing. The banking sector enables the withstanding of the shock hitting one state through, let's say, the banking sector, which is integrated at the area-wide level. So if you ask me what is my long-term – actually, I would say medium-term – ambition for the Banking Union, it would be to complete the Banking Union with the instruments which are not yet there – for instance, the *deposit*-guarantee schemes – and make sure that you have a mechanism that enables the management of idiosyncratic shocks in a more integrated fashion.

But let me argue also that this is a specific shock. The shock we are facing right now – the COVID-19 pandemic – is not an idiosyncratic shock. It is not something which has hit the banks, say, in one country because they were particularly lax in their lending standards, or because they were adopting poor risk-management measures. This is a symmetric shock, totally exogenous, that is hitting all the banks in all the countries, and that is due to a totally unexpected event coming from outside the banking sector. The banks are not the origin of the crisis in this case.

We would need to have, indeed, integrated and unified responses. That's what the Banking Union is about, and I count on the support of the European Parliament to bring forward, ideally within this current legislature, the measures which are necessary to complete the Banking Union.

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Chair. – I don't have any further requests for catch-the-eye, so I think we can close our hearing here. I again thank Mr Enria and all the members of ECON who participated. Have a good day and keep safe.

(The hearing closed at 11.55)