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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, 27 OCTOBER 2020**

1-002-0000

IN THE CHAIR: IRENE TINAGLI
*Chair of the Committee on Economic and Monetary Affairs**(The meeting opened at 13.46)*

Chair. – We can now start our public hearing with Andrea Enria, Chair of the Supervisory Board of the ECB.

So I would like to welcome Mr Enria. This public hearing is organised under the format provided by the SSM Regulation and the interinstitutional agreement between the European Parliament and the ECB. At the last public SSM hearing in this format, which took place on 6 May 2020, it is again taking place in exceptional and challenging times. Therefore, we are especially interested in your views on the completion of the banking union, your updated assessment of the impact of the COVID-19 pandemic on the banking sector and, in light of the end of the transition period for the United Kingdom, the Brexit preparedness within the banking sector.

I would also expect Members to be interested also in what you wrote today in the *Financial Times* as regards the possible establishment of a European bad bank or, accordingly, national bad banks, to deal with the crisis better than last time around. Of course should you wish to raise other specific issues, this would be very welcome as well.

So Mr Enria, you have the floor for an introductory statement of around 10 minutes and then we will start our Q&A session.

1-004-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank.* – Chair, honourable members of the Economic and Monetary Affairs Committee, when I last appeared in front of your committee in May, I presented the measures taken by ECB Banking Supervision in response to the COVID-19 pandemic. I stressed the importance of swift and unified action by policymakers within the banking union and I also announced that we were undertaking an analysis of the potential vulnerabilities of our banking sector under different scenarios. We published the results of this analysis in July and the conclusion was that under a central scenario envisaging a very harsh recession, followed by a fairly robust recovery in 2021-22, the banking sector would be able to withstand the effects of the shock on its asset quality and capital. In a less likely, but still plausible scenario, with a sharper recession followed by a more sluggish recovery, the deterioration of asset quality and the capital depletion could be significantly more material.

Today, seven months on from the first nationwide lockdowns in Europe, we are going through another difficult phase of this crisis, with both infections and related public interventions increasing. At this juncture, our main priority is to ensure that banks are well prepared to manage the impact of the crisis and, especially, that they become proactive in managing the upcoming deterioration in asset quality.

The crisis has so far not led to a noticeable increase in non-performing loans. In the second quarter of 2020, the NPL ratio for significant institutions stood at 2.9%, compared with 3.2% in the fourth quarter of 2019. However, we do expect a rise in NPLs in particular once public support measures, such as payment moratoria, expire. For most banks, we are already seeing the cost of risk increasing compared with 2019.

It is important that banks are ready to deal with the likely surge in NPLs. They should have adequate, clear policies for identifying and measuring credit risk at an early stage, in particular at a time when loans still benefit from public support measures. They also need to make sure that they have operational capacity in place to effectively manage the increase in distressed or default exposures. Similarly, they should ensure adequate levels of provisioning for their loan books and by acting in a timely manner, banks can minimise any potential cliff effects when the moratoria and other government support measures begin to expire.

Authorities should also prepare to help deal with the expected rise in NPLs. I fully support the Commission's work on a new action plan on NPLs, in particular to improve the functioning of secondary markets, and the securitisations could also play a role. Asset management companies have also proven to be efficient tools for facilitating the management and recovery of NPLs and a European initiative, for instance connecting in a network national AMCs, via common funding mechanisms and harmonised pricing, could be a useful tool for addressing the expected rise in NPLs and ensuring a level playing field within the banking union.

Crucially, we should be faster, more integrated and effective in driving the necessary restructuring of the industry. After the last crisis, structural weaknesses in the European banking sector remained unaddressed, notwithstanding massive public support. Low profitability, poor cost efficiency, excess capacity, doubts on the long-term viability of business models are at the basis of low market valuations. We should aim at exiting this crisis with a stronger banking sector, able to assist the necessary transformation towards a more sustainable and technologically advanced economy. Bank consolidation can be part of the solution, as it could focus efforts to improve cost efficiency and develop better focused, more sustainable business models. To clarify our prudential supervisory approach to consolidation, we recently published a draft guide and are now assessing the feedback from the public consultation. What we know from talking to banks and policymakers, though, is that there are multiple barriers to consolidation, particularly on a cross-border basis.

Unfortunately, the pandemic is not the only challenge we face. Environmental risks, like climate change, are a prime example of this. Brexit is another. We have continued work on both of these fronts, and expect banks to do the same.

We acknowledge that it is difficult to precisely measure climate-related risks. But we do know that banks will face considerable risks both directly related to climate change and from the structural shifts associated with the transition to a greener economy. These risks will in all likelihood also increase in time. The challenge will now be to review banks' traditional risk management practices and ensure they can be adapted to manage exposures to climate risks.

From May to September this year, we conducted an important consultation on our draft guide on climate-related and environmental risks. We expect to publish the final version of the guide towards year-end. Starting next year, we will also start supervisory dialogues with banks to

discuss how their practices compare with the supervisory expectations we have set out in the guide. We are aware that methods for understanding and managing climate risks are evolving, but expect banks to start working on their capacities now, and to enhance transparency in their climate-related and environmental disclosures.

As for Brexit, we have said for some time that banks need to be prepared for all possible outcomes at the end of the transition period. At the beginning of the pandemic, we extended some operational flexibility to banks but during the summer we stepped up again our supervisory dialogue with banks about Brexit preparations. Many banks have made considerable progress, and some are well on track to achieve their post-Brexit target operating models. However, some still need to intensify their efforts. This includes in particular the novation of contracts with those EU customers to whom banks had previously provided services directly from the UK. In addition, banks should not over-rely on back-to-back booking to the parent or other group entities in third countries. Risk management capabilities for products booked in the EU should also be located in the EU.

Thanks to the efforts made after the 2008 financial crisis and the subsequent sovereign debt crisis, the euro area banks entered this crisis with more robust capital and liquidity positions than last time. To ensure the banking system recovers again, we should adopt the same spirit, which has served us well in the past and ultimately led to the establishment of the banking union, recognising that we will only come out of this crisis stronger if we act together as Europeans.

This means first and foremost strengthening and completing banking union. I would like to focus on two aspects here: the crisis management framework and the cross-border integration of banking groups.

The lessons of the last crisis have led to a significant strengthening of the crisis management framework. Banks, supervisors and resolution authorities are now required to prepare in advance for crisis situations. Significant amounts of liabilities that can absorb losses in a crisis are being built up. The resolution function has been appropriately moved at the European level in the banking union, thus ensuring a fully integrated response for those banks whose abrupt exit from the market would raise a public interest concern. Still, a large number of banks, also middle-sized ones, would be subject to liquidation according to national procedures that still differ in relevant respects. A more harmonised framework, also enabling the intervention of deposit guarantee schemes on a least cost basis, would be an important improvement.

From a supervisory perspective, it is also important to ensure that once we have declared a bank as failing or likely to fail and the Single Resolution Board has determined that there is no public interest in resolution, the bank exits the banking sector in a relatively short timeframe and it doesn't remain in a sort of limbo for a while. To this end, in 2019 the BRRD was amended to clarify that failing or likely to fail banks which do not enter resolution should be wound up in an orderly manner under national legislation and it is now up to Member States to transpose the relevant provisions into their national legislation to achieve this goal. But we also have to acknowledge that the lack of agreement on the establishment of a European Deposit Insurance Scheme is a stumbling block in promoting integration within the banking union.

Pending progress in this area, I have recently published some ideas on how to foster the cross-border integration of banking groups. This could in my view be done by introducing adequate incentives and safeguards for banking groups to enter into intra-group support agreements.

While these intra-group support agreements would have a contractual nature, they would be linked to the group's recovery plans and further strengthened by empowering the supervisor to enforce the agreement. In this way, the liquidity needs of a group entity would be met in a

timely manner, alleviating the concerns of host authorities while also enabling a more efficient allocation of liquidity at group level, both in good times and in crisis times. This would be made possible by linking the granting of cross-border liquidity waivers to, among other things, the existence of adequate intragroup financial support agreements.

Concluding, this crisis pushed us to adjust to new circumstances at a faster pace than ever before. We have done our best to react swiftly when required, and we will continue doing so whenever necessary.

We hope the co-legislators can also work in the same spirit, acknowledging the benefits of banking union and agreeing on measures to make it stronger. The same applies to the post-crisis reforms agreed on under the Basel framework – the agreement reached was the result of in-depth and productive discussions for a number of years and here too we should maintain a long-term view and faithfully implement these important reforms, as agreed on the international stage.

Thank you for your time and attention. I now look forward to your questions.

1-005-0000

Frances Fitzgerald (PPE). – Good afternoon everyone, and good afternoon Mr Enria and thank you for that very interesting presentation and also for the points you make in your *Financial Times* article about an integrated European response. Disturbingly you talk about the fragile EU banking sector, but also for a more active management of NPLs and so on.

I wanted to ask you about a particular issue. In most Member States banks have offered mortgage payment breaks to consumers in accordance with the EBA guidelines. Now, they were to be phased out at the end of September but now we're well and truly into the second wave of coronavirus, with new lockdown measures and so on, and a potential greater economic shock for mortgage holders, consumers and of course businesses. In Ireland for example we've said the payment breaks will not be extended and that tailored solutions would be provided on a case-by-case basis.

Do you have information on euro area banks? How many will continue offering payment breaks during the second wave? And given the severity of the new lockdown measures across Europe, will there be consideration given to new flexibility for banks to provide blanket payment breaks for mortgage holders? And finally, if no new flexibility is introduced, will there be consideration given to introducing... you know, how will the SSM and EBA supervise the solutions that banks offer to their customers who are faced with short-term liquidity challenges?

And I'm also interested in what other regulatory supports do you think can be offered to banks during this period? There was very much saying, look we're in this second wave, we are going to have NPLs that are above the levels, as you say, of 2008 and 2011. It's a very challenging time and I'm very interested in getting your response on that particular issue, but also the other regulatory supports that might be available this time around.

1-006-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Thank you very much for your question. Well, indeed we moved quite fast in March to ensure that the measures that were being taken by several Member States or in some cases also private measures taken by banking associations, for instance, at the national level, were not leading to the automatic reclassification of loans as restructured. So what we told banks is basically that if the suspension of payments was falling under these EBA recognised moratoria there wouldn't have been a need to automatically reclassify these loans as forborne, as restructured. And this has, of course, helped these measures to be developed and to take hold.

Now, of course these measures refer to the loans that were granted before the moratoria started, and we should also remind ourselves that both the ECB and the EBA always stressed that this doesn't allow banks actually to avoid their fundamental task of assessing, of course, the quality of their creditors and whether they are indeed able to pay or indeed in default.

As you correctly mentioned, the EBA decided at the end of September, after six months, that there was no need to continue the recognition of new moratoria; the old moratoria when they have a longer timeframe are still recognised. The EBA also mentioned that if there were a significant deterioration of the situation they stand ready to review their initial decision, and that's a point that might need to be considered in the coming weeks and months. But anyway, as you correctly mentioned also, it is up to banks to indeed approach customers and find the solutions, which are the most appropriate for the customers going forward.

I think that a key point is that when customers start experiencing difficulties and they start being in distress, it is important that banks start approaching them, proposing restructuring solutions, rescheduling, a revision of the interest rates. I mean, all these measures are crucial to avoid cliff-edge effects at the end of the process. So we stand ready, of course, to monitor and support these actions by the banks going forward.

1-007-0000

Eero Heinäluoma (S&D). – Thank you, Mr Enria, for being with us this afternoon. I have two questions in my mind. The SSM recommended the suspension of the payment of dividends by financial institutions, and rightly so. This is a really important thing for the whole Parliament, I suppose, but especially for our political group. We are living in the biggest crisis since the Second World War. A lot of ordinary citizens are suffering; health problems, job losses and financial problems also. At the same time, the European institutions and Member States have demonstrated quite some generosity over the last months towards the financial sector, with CRR quick fix, ECB interventions and so on.

We were told these measures were necessary to support the financial sector. Despite this, we cannot go on with business as usual, in particular with the crisis getting worse. So, do you agree with the need to extend the suspension of payment of dividends, as it seems is the atmosphere here in Parliament?

And my second question is a little bit the same area. In the coming weeks there will be a new action plan on non-performing loans (NPL) by the Commission. At the same time, there seems to be growing pressure to make state-aid rules towards suffering or failing banks more flexible. What is your view here? How can we protect taxpayers' money and ensure that they will not have to bail out failing banks anymore, and this time, I suppose the ordinary people would not be very happy if we ought, once more, to pay tax dividends to the banks.

1-008-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Thank you for your question. On the first point on dividends, we committed to review our decision, our recommendations, by December this year. At the moment the data we have are that, in the countries where the moratoria have already been lifted, most customers of the banks have resumed payments as usual and only a fraction have shown distress. In terms of macroeconomic projections, also we seem to be still on track with the central scenario that, as I mentioned before, seems to keep the banking sector in conditions of resilience according to our estimates.

Still, as you correctly mentioned, the situation of contagion around us and of public measures is deteriorating and public measures are being taken to tackle this challenge, which means that uncertainty is still fairly high. This is why we decided to review the decision only after the ECB publishes the new macroeconomic projections, which is expected to happen on 10 December. So we will take our decision on the recommendation on dividends only when we will have more

visibility on the macroeconomic developments ahead of us. For the moment, we are still reflecting and discussing internally, but we hear the position that you expressed and I will report this position also to our board.

On NPLs, as I mentioned – and also the Chair kindly referred to – I published today an article in the *Financial Times* where I proposed the establishment of asset management companies under a sort of European initiative. That is for me very important; asset management companies are a tool that, if well engineered, well designed, generally do not produce losses, or do not produce losses for taxpayers, and they can enable the banking sector to clean the balance sheet in a much faster way.

I know the initiative is controversial sometimes because there is a fear of mutualisation of losses across Member States and again I want to reiterate the point that we can design these initiatives also without any mutualisation if this is the political preference. But what is important is that we put banks in the banking union on the same footing and that we break the link with the sovereign, so that the funding of these initiatives is on the same footing at the European level and the pricing is also at the European level, so that there is no hidden benefit that advantages one bank against the other in our jurisdiction.

1-009-0000

Billy Kelleher (Renew). –Just to say at the outset, we've been speaking a lot about liquidity, capital requirements, and oversight and regulation of banks for some time, but it's never been more important than now, in view of the fact that this is probably a challenge faced by regulators, banks and broader society, and economies across Europe, because of the COVID pandemic.

In saying that, do we now have a situation where we have poor profitability in our banks, uncertainty about obligations around capital requirements and liquidity, NPLs and the difficulties that is causing, and stress on banking systems?

And then the obligation to allow for moratoriums for mortgage repayments because of the pandemic itself, coupled with other challenges in the broader economy: where do you see there being potential to address the challenges that people will have with their mortgage repayments because of lockdowns, forced closures of economies right across the European zone at the present time?

And could you indicate whether or not the ECB and the supervisory bodies appended to it are taking into account the very real nature of the distress that is out there among families and mortgage holders at this particular time, coupled with the fact that banks, because of their weakness in their balance sheets, are now retrenching from lending?

You can even see there are articles written in recent times about the fact that European banks are no longer lending to the real economy in the way they were up until September, and I believe that a lot of that is because of the uncertainty around what obligations will be on banks in the time ahead when the supervisors and the regulatory authorities start unwinding the flexibility around capital requirements, liquidity requirements and leverage requirements.

So if you could just satisfy me that there is still genuine understanding of the pressures that families are under throughout Europe in trying to make mortgage repayments.

1-010-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Thank you for your question. Let me first of all say that although I myself sometimes I highlight the weaknesses in the European banking sector we also have to acknowledge that this time the

European banking sector entered the crisis in a much stronger position in terms of both capital liquidity and also the progress made in the last years on the asset quality side.

So the fact that the banking sector was so much stronger and the fact that we were fast in providing relief measures at the beginning of the crisis meant also that banks were able to extend loans to the economy, both to households, small businesses and corporates, in a much more effective way this time than last time around. There was a much stronger tightening of the credit standards in 2008 and 2009 after Lehman than was the case this time.

And in terms of lending, our evidence is that there has been a significant increase in lending in the first two quarters of this year, exactly because we created the conditions for banks to extend liquidity and support to small businesses and households in difficult times. And the moratoria were the other aspects that would give breathing space to the counterparts in this difficult period.

Then once the economies were starting to reopen during the summer, we also see that demand for credit started going down and lending started decreasing, but now, according to the lending survey that has been published today by the ECB, it seems that the new increase in lending is expected in the fourth quarter of this year.

So to some extent my view is that we have been creating the conditions for banks to continue assisting their customers and also via the moratoria payment breaks and the like. Of course a point that we also mention is that banks need to make sure that customers are actually not paying because they are simply blocked by the moratoria, but that they are viable in the medium to long-term. If they are not viable, if they are under distress, our recommendation is that they start taking action early on to manage early arrears and to actively intervene to avoid that the situation deteriorates in an irreparable way.

1-011-0000

Antonio Maria Rinaldi (ID). – Chair, honourable colleagues, President Enria, I will make a few very quick, very rapid remarks and then ask my two questions.

With the spread of infections in the pandemic persisting we are expecting NPLs to rise again across the whole of Europe; this extraordinary situation, which obviously could not be foreseen, may cause serious economic and social problems that cannot be brought under control. This is my concern.

To avoid borrowers being automatically penalised in a crisis situation the rules written and devised in pre-COVID times need, in my opinion, to be reviewed. The current rules under Basel Pillar 2 must, therefore, be reconsidered, particularly as regards NPLs.

Greater flexibility on the old NPLs would also be helpful and hence on the SREP recommendations, always at second level naturally, where – because of the delays in the courts and executive procedures and in borrowers' greater difficulties in general – it will, I believe, be simpler and easier for you to take action.

I now come to my two questions: based on what I have just said, don't you think it would be advisable to introduce a certain flexibility, even just temporarily and with a clear correlation to the health crisis, to allow the banking system to maintain credit flows, at least until the situation stabilises?

Second question: do you not find, furthermore, that while the proposal we have read about in the Financial Times, that a bad bank be set up, could certainly resolve and alleviate the balance sheet problems of lenders, it would do so for borrowers who, overwhelmed by this terrible and

unprecedented health crisis, would still be ruined, and with them the economy and the social fabric of the whole Union?

1-012-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Considering your first point on the need to introduce more flexibility in the way in which we deal with non-performing loans in light of the extraordinary situation banks and their customers are now in, I would say that as much as this is in our remit, we have provided extensive flexibility to banks, extensive flexibility. We have enabled banks to benefit from operational flexibility for six months; basically we have provided a breathing space for them to focus on the emergency of the moment, and we've suspended a number of supervisory actions.

In the specific area of non-performing loans, we postponed two times, actually, the deadline for banks to provide us with their plans for reducing non-performing loans. We realise that banks face difficulties in completing their plans for securitising or disposing of non-performing loans in the secondary market, because there wasn't a very active market at the time, especially in the first part of the year. So whenever we see that this flexibility is necessary we, of course, stand ready to grant it.

Let me also say, however, that it is important that banks do not kick the can down the road. Banks cannot and should not, in my view, let exposures, in a sense, rot in their balance sheet to some extent, without taking any action.

And this is an important point for me also with reference to your second remark and your second question. The early intervention by banks is needed to restructure the loans and to alleviate the burden on debt in the balance sheets of their counterparts, so, small and medium enterprises and the corporates. In general, what we see is that when you have a strong surge in non-performing loans you have balance sheets of banks which are clogged with poor assets, deteriorated assets, and you have the balance sheets of corporates and small and medium enterprises which are in a sort of debt hangover.

This means that the borrowers are focusing on rebuilding equity, are not investing and this is delaying, of course, the recovery, and banks are focused on recovering their loans and they are not lending anymore. And that is a situation in which the economy does not rebound, does not start the recovery.

That's why I think that the asset management companies – 'bad banks' as they are usually referred to in the common jargon – are very useful because they enable not only the banks to benefit and to clean their balance sheets fast, of course, taking some heat on their capital position, but they also enable the asset management companies to be more forceful in the restructuring of loans and in putting the customers, corporates and small businesses in particular, again in a position to restart their business and to invest in the future of the economy.

1-013-0000

Sven Giegold (Verts/ALE). – My question is very precise and clear. There is at the moment an internal reorganisation exercise going on in the common single supervisory mechanism. Can you tell us a bit more about that reorganisation exercise? What changes are being discussed? What are those points which are perhaps a bit controversial, where open issues are still on the table?

I have one very specific question to you and proposal to make. In the past the SSM relied extensively on external consultants, including for onsite missions. My question to you is, do you plan to increase own resources, also in order to limit potential conflicts of interest in the future? So is there a future for an SSM with a bit less of McKinsey, Accenture, BCJ and so on?

I think that would be good progress in the sense of good European good governance in banking supervision.

1-014-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – I will have difficulty staying within the three minutes, because if you get me going on this topic I can speak for quite a long time. So I'll try to be focused.

First, let me say that in my experience that's the first reorganisation that I've seen which has been done without spending a single euro on external consultants. Actually our external consultants have been mainly our staff – so the feedback I received in town halls and in engagement with staff within the ECB and, in my trips to the national capitals, with staff of the national competent authorities.

I would say that the driving principles behind the reorganisation are to break silos and increase the collaboration within the ECB supervision and to simplify our processes, as when the ECB was established – and I don't mean any criticism of that because I think that was the only way which it could be established as a start-up – there was a lot of effort in codifying the practices for supervisors and we did what we do best at the European table. We basically sat around tables and wrote down papers codifying procedures. This meant that our processes became a little bit heavy-handed and the supervisors complained to me that they did not have enough time to focus on the risks at the banks and they were ticking boxes in our internal processes.

So the overall idea is to reduce a little bit, simplify a little bit, the ex ante guide and leave more room for judgement, at the same time introducing a second line of defence. We are asking banks to introduce a second line of defence and that's also what we should do ourselves – so having a 'four eyes' principle in place in terms of supervisory outcomes, quality of supervision and consistency.

You mentioned also the point of consultancy, and I have already referred a little bit to that. The first days I entered my job here in 2019 I was told that the governing council had decided the stabilisation of the budget of the SSM. I welcomed this because it's also an incentive for us to really prioritise and focus, and I used also this opportunity to internalise many functions in which we were relying extensively on external consultants. So for instance in the area of stress tests, we managed before stabilising the budget to internalise and hire new staff with this specific objective so that we can do more around the exercise in house rather than based on the services of external consultants.

There has, in several areas, been a review and the decision to reduce substantially the reliance on external consultants.

1-015-0000

Eugen Jurzyca (ECR). – The public debt of euro area countries is set to rise from 84% of GDP in 2019 to exceeding 100% by the end of this year. Reaching the 60% of GDP benchmark required by the fiscal rules seems to be nearly impossible within the foreseeable future. Under market conditions, some Member States might already see rising interest rates on their public debt as the demand for their bonds would decrease. However, it is the ECB that is taking this pressure off the Member States by massive bond-buying programmes, creating artificial demand for their state bonds. Since ECB policies are keeping the risk of state bankruptcies low, over-indebted Member States are postponing their needed structural reforms at the expense of those with lower debt and responsible public spending. Does the ECB plan to amend its bond-buying programmes? Perhaps one of the solutions could be conditionality of bond buying on the consolidation of public finances and progress on structural reforms.

1-016-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – I understand your question. Unfortunately, due to the separation principle and being in charge only of

supervision policies here at the ECB, I cannot really intervene on issues which are more the responsibility of my colleagues on the monetary policy side of the ECB.

What I can say as a supervisor is that of course the increase in debt, both public debt and private debt, is a source of concern for the Supervisor. It means that there is increased fragility of the counterparts, of the banks and this is something that is, of course, linked also to the concerns that I have raised before and discussed before on asset quality.

More generally, maybe I can take the opportunity offered by your question to stress the point that the significant and extraordinary measures which have been adopted by my colleagues on the central banking side have to some extent created in the banking sector the perception, more generally, that there are fewer risks and less volatility also in the future than is actually the case. I think that it is important that we maintain a robust sense of the extraordinary situation we are in and the potential risks ahead of us. This is what we are indeed asking the banks to focus on in the coming weeks and months.

1-017-0000

Dimitrios Papadimoulis (GUE/NGL). – Madame President, Mr Enria, in a number of Member States we are witnessing the reluctance of banks to channel resources to the real economy — resources these banks receive from the European Central Bank’s asset purchase programme — given the severity of the second wave of the pandemic. For example, in Greece, Greek banks have received EUR 16 billion, while only EUR 4.3 billion — around 25 % — has been used to provide loans and support the real economy. Does this mismatch worry you?

My second question concerns the protection of borrowers, in particular those who have taken out a loan for their main residence, in comparison with non-performing loans. I would like to know what your thoughts are on the new legislative measures in Greece under which people are at risk of losing their homes, at a time when the pandemic requires us to stay at home.

My third question concerns the FinCEN scandal: Leading European banks, which receive large sums of money from the European Central Bank, played a leading role in the laundering of EUR 2 trillion from criminal activities. What is your view on the need for a centralised independent European mechanism with powers to monitor activities and impose sanctions, given the failure of Member States to provide solutions and answers to these problems on their own?

1-018-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – I have to apologise, Mr Papadimoulis. I missed your first question because I didn’t have translation on. Could you repeat the first question please? The second on the protection of borrowers and the third one on FinCEN...

1-019-0000

Dimitrios Papadimoulis (GUE/NGL). – Madame President, Mr Enria, in my first question I referred to the reluctance of banks in Greece, for example, to channel resources they receive from the European Central Bank’s asset purchase programme to the real economy. I mentioned that in Greece, for example, Greek banks have received EUR 16 billion from the European Central Bank programme and only a quarter has been used for loans, thus exacerbating the recession already affecting the economy and society. Do you have any comments or recommendations?

1-020-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Well, let me start with the question on the lending to the real economy. Again, I will not comment on individual banks or even individual countries, of course it is difficult, but in general, the annual growth rate of loans to euro area firms, according to figures which have been published now,

basically, and which referred to the end of September – so fairly fresh figures – is a growth in lending of 7.1% which, in the framework of an economy which is significantly shrinking, is indeed a quite positive support that the banking sector is providing to the real economy right now.

There has been, as I mentioned before, a reduction in lending in the third quarter, which was linked to the fact that demand was actually going down because small businesses, corporates in particular, were resuming business and then having the revenues back in place.

With reference to your second question, I think I addressed it already to some extent, but indeed there is an understanding of all the measures that need to be taken also to protect bank customers. But it is important that eventually these measures do not also... I mean, there is a tension in terms of enabling also banks to continue lending to the economy. So if banks remain clogged with bad loans, then it's very difficult for them to lend to their customers.

So I think that of the two things, the protection of borrowers is best made when there are clear mechanisms to deal with non-performing exposures and also when there is, of course, a culture of payment that is supporting these measures. This enables a better and earlier restructuring of the customers, which again would put them in a position to pay back their loans, maybe with better conditions, longer maturity and the like.

On the FinCEN leak, you highlighted the need for European supervision. As you know very well, the ECB is not responsible for anti-money laundering (AML) supervision and cannot be responsible for AML supervision because the Treaty explicitly prevents us taking up this role, but we have been strongly supporting that, in an area which is so delicate and where we have seen so many scandals taking place, also through movement of money within the single market, there is a more intense cooperation between prudential supervisors like us and the competent authorities for anti-money laundering, which is something that we have set in place via a memorandum of understanding.

But especially it is important that the regulatory and supervisory side on the AML issue is more integrated at the European level, ideally with the attribution of responsibilities for monitoring, supervision and also sanctions at the European level.

1-021-0000

Isabel Benjumea Benjumea (PPE). – Thank you so much for coming to the European Parliament's Committee on Economic and Monetary Affairs today, Mr Enria.

Throughout this debate we have been focusing on an extremely important issue – looking at the extent to which we are able to provide liquidity to European companies in the face of the terrible social and economic crisis caused by the pandemic that we're going through.

When it comes to that need for liquidity, I'd like to ask for your opinion on the usefulness of the capital markets union project as an alternative for SMEs, so that they aren't as heavily dependent on bank loans, which also implies that their profit and loss account is more dependent on debt.

First, I'd like to know whether you think Europe has the capacity to provide the capital to encourage small investors to move into the capital markets. What do you think of financing via the capital markets as an alternative for SMEs, and something that is absolutely vital to make that possible: the single supervision of the capital markets? What's your view from the European Central Bank on the likelihood of that single supervision actually becoming a reality?

So I'd like to hear what you think about the capital markets union, about how suitable it is as an alternative to the dependence on debt that the SMEs looking for this liquidity currently have, and about how to tackle the major challenges that we aren't yet able to solve – how will we be able to bring about single supervision in order to make the capital markets union a reality?

1-022-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – Thank you for your question. Indeed, let me stress once again that the liquidity support to corporates and especially small and medium enterprises has been quite extraordinary in the first two quarters of the year. If you look deeper down in the data it is clear that it was mainly corporates drawing on the credit lines that were available at banks and that managed to create that liquidity support, thanks to which the corporates managed to cross the desert of the lockdown, basically, and survive until the recovery started. So there has been a positive effect right there.

The capital markets union is a very important project and is a twin project also to the banking union. Indeed it would be very important and crucial that progress is made also in the area of capital markets. Of course, for SME financing, SMEs are traditionally mostly financed by banks and they generally do not directly access the capital markets for their funding, but they can indeed indirectly access the capital markets through securitisation.

So securitisation is an important channel for bringing the loans to SMEs and making them marketable and selling them in the capital market. So there have been a number of projects to redevelop the market for securitisation on a sounder basis after the problems that it caused in the last crisis, through this simple, transparent and standard securitisation. We have been very supportive of this initiative, that's an important step, and I know that this is still being finalised and we hope to see progress in that area.

More generally, we are supportive of the progress in the capital markets union and the initiative the Commission is taking in this respect. My own very personal view is that when you want a union to succeed you also need to make an authority responsible for that. Somebody needs to own the results. I don't think this should be for the ECB, but there are bodies such as EMSA that could take an important role in this respect.

1-023-0000

Evelyn Regner (S&D). – The COVID crisis is affecting the labour market severely, in particular workers and employees. Having said that, investments are lacking even though there is enough money in the market, so it makes clear that monetary policy has its limits. In order to help the struggling labour market throughout Europe, fiscal policy measures in countries are necessary to achieve the desired multiplier effect. So what measures can the ECB therefore take to support countries in their fiscal policy efforts?

This is against the background of what you said before concerning credits. Yes, credits are being given again by banks, but unemployed people don't get credit and often they don't even ask for it.

1-024-0000

Andrea Enria, *Chair of the Supervisory Board of the European Central Bank*. – That's an important question. Let me say first of all that one of the successes, I would say, of the European response to the crisis, at least in the first stages – we will have to see what will happen in the coming months – has been, I think, the unprecedented coordination of different policies. We have had the supervisory measures and monetary policy measures being announced on the same day, on 17 March, very early in the crisis and we've had an important fiscal response at the European level when the Recovery Facility was agreed upon. I know that negotiations are still underway, but that was indeed a landmark announcement for the markets.

So having the fiscal policy, monetary policy and also – in its own small corner – the supervisory policy let's say rowing in the same direction has been particularly important. We have research which has been published by our economists showing that the fact that monetary policy and supervisory measures are working in sync has significantly expanded the effectiveness of the monetary support. Indeed, the fact that for instance in the first wave of support measures that there were also government guarantees on loans has been extremely important because these has reduced the perceived risks from the banking side and has enabled banks to provide the great support that was necessary.

So I think that, in this respect, probably one of the most important questions on the government's tables in the coming months will be whether, according to the development of the pandemic, there will be a need to prolong these support measures or not.

1-025-0000

Chair. – That was the last registered speaker, but I have a catch-the-eye request and since we still have a couple of minutes I will give the floor to Marek Belka from S&D for a catch-the-eye question.

1-026-0000

Marek Belka (S&D). – Let me ask you, Andrea, a question that is more general. We are in the middle of a pandemic, we are not at the end of the crisis. The next wave may drown us more than the first one. What is the remaining war chest in the ECB in monetary policy? Or are we against the wall and everything depends on fiscal policy?

1-027-0000

Andrea Enria, Chair of the Supervisory Board of the European Central Bank. – Thank you, Marek, for your question and nice to see you again in your new capacity. Unfortunately, again, as you know, due to the separation principle I'm really not in a position to comment on monetary policy issues. What I can say is that, in general, the message which has come from the ECB is that we have shown already our ability to act and to activate all tools in order to support our economy and we will continue to do so. In particular let me stress again that the coordination between policies is particularly important to ensuring their success.

1-028-0000

Chair. – Thank you very much Mr Enria. We have finished our public hearing, so I really thank you again for your availability and I thank all the Members for their questions and their participation in this hearing.

(The hearing closed at 14.50)