Does the Covid crisis reinforce the case for Banking Union?

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The coronavirus pandemic and banking integration

The spread of the novel Coronavirus disease (COVID-19) has once again shown how interconnected the world is. Within three months, a virus had spread from a province in Central China to six continents and, in particular, to every single Member State of the European Union (EU). A common challenge deserves a common response, with work underway not only to contain the spread of the virus but also to mitigate the socio-economic impact of COVID-19 and to support the recovery in the EU. Today, I wish to reflect on its impact on another area of the European integration project, born out of the insight that our economies and banking systems are deeply interdependent: namely the European banking union.

Thanks to the banking union, banks have entered this crisis in a much better shape than in previous crises: they have stronger capital levels, better liquidity positions and more stable funding structures. The results of our vulnerability analysis[1] show how this more robust position is allowing banks to withstand the current economic shock. Even before the COVID-19 outbreak, the European banking system suffered from a number of known structural weaknesses, such as low profitability, as reflected in high cost-income ratios implying little capacity to invest in new technologies.

This persistently low level of profitability is linked to an overcapacity in the European banking sector. Further integration and consolidation of the banking sector may therefore help in terms of economies of scale and scope, but also by contributing to better revenue and risk diversification, in particular in a cross-border context.

In response to the crisis, significant decisions have been taken to allow banks to continue lending to the real economy while preventing the risk of abrupt deleveraging processes. Some of these decisions were taken at the European level. Others were adopted by national governments, reflecting the allocation of competences in the EU. While national responses were deemed necessary for a fast response in some areas, the inherent risk of fragmentation needs to be carefully managed. Thus, it is of the utmost importance to ensure that existing European structures and fora are used for coordination. In our role as Supervisor we will ensure a consistent approach in the treatment of such national support measures.

Targeted further harmonisation of the prudential framework may also be needed to allow banks to exit the market in an orderly fashion without hampering the economic function of funding the real economy. The support given to the economy will be best used by allowing banks to address their structural problems rather than perpetuating overcapacity.

For this purpose, it is very important to ensure that, once the European Central Bank has declared a bank as failing or likely to fail (FOLTF) and the Single Resolution Board (SRB) has determined that there is no public interest for resolution, the bank exits the banking sector in a relatively short timeframe, even in cases where the FOLTF decision is based on likely insolvency, likely illiquidity or likely infringement of prudential requirements.

This could be ensured by the transposition of Article 32b of the Bank Recovery and Resolution Directive. However, with the same goal in mind, it is also important to further align the grounds for FOLTF and withdrawal of licence. As regards a wider revision of the resolution/liquidation toolkit, it should be ensured that at least the failure of all significant institutions/groups and other cross-border groups under the SRB's remit can be dealt with via EU-managed tools and processes across the banking union.

> *Further integration and consolidation of the banking sector may therefore help.*

This would not only enhance predictability and the level playing field among failing banks but would also enable the banking union to turn banking crises into an opportunity to achieve a less fragmented banking sector.

Last, we may also need to improve the framework for intra-group support agreements to provide sufficient assurances that entities within a group support each other in times of stress. Having in place such safeguards necessary for local financial stability issues would help to dismantle the impediments to the free flow of resources within cross-border banking groups in normal times. ●

1. https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728~7df9502348.en.html

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Never waste a good crisis - the Banking Union for a better recovery and lasting prosperity

The COVID-19 pandemic has affected all aspects of the European economy. Given sensible regulation, banks were better prepared with more capital and liquidity than in previous crises. Thanks to the single supervisory mechanisms, the ECB and national regulators were able to act swiftly and coordinate a response to free counter-cyclical buffers, introduce supervisory flexibility and providing operational relief. Sustained efforts to reduce risks have increased the resilience of the banking sector and freed capital previously tied up in non-performing loans. These measures enabled European banks to provide much needed liquidity to businesses hit by the crisis and to play a crucial role in mitigating the economic impact of the pandemic. All these examples are testament to the proper functioning of the regulatory and supervisory framework designed following the Global Financial Crisis in 2008.

However, the crisis has also highlighted that one must not become complacent. European financial markets are still fragmented and barriers to the free flow of capital and liquidity persist. Not leveraging the full potential of an integrated banking market may affect profitability, and thus, financial stability and the sovereignty of the common currency globally. The political impasse has also handicapped European banks competing with US and Chinese peers. Thus, important work remains to complete the Banking Union.

One of the priorities of Germany's presidency of the European Council is to improve the crisis management framework. The single resolution mechanism provides a reliable regime for dealing with systemically relevant banks in crisis. Two issues remain unresolved: First, frictions between the resolution framework and national insolvency procedures impair a smooth and effective crisis management. Second, there remain smaller banks below the threshold of public interest and unable to build-up sufficient MREL for bail-in in resolution. While market exit of non-viable banks must be ensured, we need to avoid that piecemeal liquidation negatively affects the efficient provision of banking services and depositors' confidence. Some of the tools proven useful in resolution could also minimise the disruption caused by the liquidation.

Cross-border consolidation in the European banking sector would help to reduce the fragmentation of European financial markets. This requires further efforts to eliminate barriers to doing banking business across borders. For instance, banking groups should be able to allocate capital and liquidity freely within the groups while maintaining comprehensive safeguards for host countries in times of crisis.

Of late banks have increased their holdings of sovereign debt. While this is necessary to fund governments' expenditure to support households and businesses in tumultuous economic conditions, we must not forget the viciousness of the sovereign-bank nexus. Gradually introducing capital requirements that reflect credit and concentration risks of sovereign holding in banks' balances could restore the incentives to hold a diversified portfolio. By contrast, failing to counter the sovereign-bank loop poses a threat to financial stability, discourages investors to hold Euro denominated debt and thereby weakens the sovereignty of the common currency.

The COVID-19 crisis proved once more that the banking union has been a game changer for the European banking sector and the economy at large. And while the COVID-19 response measures are currently on top of everyone's agenda, the long-term objectives of the Banking Union remain as relevant as ever: a strong banking sector, characterised by financial stability and the ability to provide reliable and low-cost funding, are vital for the European economy. The benefits of completing the banking union are clear – the way to achieve it is, too. ●

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Towards an innovative European solution to bad loans

According to the vulnerability analysis published by the ECB[1] on July 28, 2020, the banking sector will be sufficiently resilient to resist the coronavirus crisis. However, the analysis of the ECB also found that lending growth will be instrumental in the recovery[2], estimating that a broad deployment of bank's buffers and supervisory flexibility could bring as much as an additional 3% GDP growth by 2022.

It is thus essential to ensure that loan deterioration does not hamper growth. To this end, the legislative work on NPLs carried out before the crisis must continue. Moreover, avoiding the impact on the deteriorating loan book (partly inherited from the financial crisis) on growth requires, as Andrea Enria (head of the SSM, then at the EBA) has ▶

proposed since 2017[3], that we set up a European "bad bank" (technically, an Asset Management Company, AMC).

Is a bad bank a solution for the COVID bad loans?

The nature of the NPLs from the Covid crisis is such that a traditional AMC may not be fully appropriate. In the previous crisis, the fact that the bad loans had clearly identifiable collateral (real estate) made them easy to transfer and be managed by AMCs. More importantly, the relationship and information sharing between the bank and its client were not as valuable.

However, this crisis is different. Although many bad loans will be from large loans to corporates, a substantial share of the NPLs are likely to be small loans to SMEs with little collateral. Moreover "soft" information is key[4] in this context, and thus keeping the relationship between the bank and the SME is central to promote lending.

Nevertheless, it is clear a bad bank could bolster lending and help mitigate the economic downturn. An innovative solution is required. I would suggest we need to find solutions that preserve the existing banking relationship, such as the purchase of collateralized debt obligations by the AMC instead of individual loans, to foster the creation of NPL markets, of which some tranches would be left within the bank itself to ensure some skin in the game.

A European vs National solution

The idea of an "EU bad bank" is not currently viewed favorably by regulators and national politicians[5]. Instead, the current debate points towards the EU level replaced by efforts towards a "network" or "federation" of bad banks. Each Member State would establish their own AMC, but they all would follow common rules on matters such as governance or funding. There would be no risk sharing, yet the network could, it is argued, gain the economies of scale that are often key for bad banks.

This language of "coordination" is familiar to us from other European efforts. Before we had a Single Supervisor, many advocated for further coordination of national supervisors. With each new scandal (now Wirecard) there is always some call for "more coordination" between national regulators, rather than a European centralized action.

But the drawbacks are evident. Experience shows that enforcing common interpretation of European rules would be impossible. In matters such as asset transfer prices, which are the core driver of this kind of aid, it is hard to see Member States tying the hands of their own AMC.

Also, as the Wirecard example shows, we would face massive regulatory nationalism, where each regulator generally seeks to "wash their dirty laundry at home", and thus avoids, for far too long, uncovering information (such as low asset prices) that may shed negative light on national champions.

Finally, the widely different levels of available funding at each country would make for vastly different levels of recapitalization in different banks and thus lead to further fragmentation of the financial services market.

Thus, innovative AMC´s, if needed, should be set up at a European level. The European legislative framework (BRRD) already allows for the creation of EU-wide AMCs to be funded by the Single Resolution Fund. However, since the aid would be granted outside of resolution, we would need to leverage other sources of funding, such as the ESM, the EIB, or private funding at the pan-European level.

Following the BRRD, aid outside of resolution would be allowed through precautionary recapitalizations if it is not granted to offset losses that have already been incurred or are likely to be incurred. With the ECB's recent analysis potentially serving to draw these lines, we should prevent aid from compensating banks for pre-Covid toxic assets.

In sum, an innovative European AMC would be essential to maintain loan growth. The following months co-legislators at European level should focus on making it possible.

1. https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728~7df9502348.en.html
2. https://www.bankingsupervision.europa.eu/press/blog/2020/html/ssm.blog200728~0bcbafb8bc.en.html
3. https://www.euromoney.com/article/b12khnxqgfghwd/ebas-enria-says-europe-wide-bad-bank-is-essential-to-avoid-japan-style-stagnation
4. https://onlinelibrary.wiley.com/doi/epdf/10.1111/j.1540-6261.1994.tb04418.x
5. https://www.ft.com/content/15d17d1d-8e1b-4f84-97b4-b62e6ae8f962

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Paths towards a clear and predictable liquidation regime

When talking about the predictability of the resolution framework, one has to state clearly, that we have a viable system in place, providing clear rules on using resolution tools and allocating losses in case of a bank failure. For example, a harmonised creditor hierarchy provides clarity and transparency to authorities and investors alike as to who has to bear losses and in which order.

Moreover, the rules provide that it must be determined if the resolution of an institution, which is failing or likely to fail, is in the public interest or not. The public interest assessment (PIA) performed by the SRB is therefore the clear line of separation between sending a failing bank into resolution or into orderly wind-down in accordance with national insolvency procedures (NIP). The SRB mentioned in the past that resolution is for the few and not for the many, which holds true looking at more than 3,000 banks in the Banking Union. In contrast, for most

▶ of the 128 banks under SRB remit, resolution is the way forward in case of failure. The SRB published its methodology for the PIA in 2019 and clarified it further in a recent blog post; the SRB also published its Expectations for Banks, a compendium of best practice to guide banks in making themselves resolvable.

Unfortunately, Europe lacks key legal elements to enhance the consistency of a bank failure, when the resolution of a bank is not in the public interest. In this case, the failing bank must be wound down in line with NIP. In practice, the outcome of NIP can vary considerably depending on factors such as the national insolvency system, and national handling, including discretions, of the respective deposit guarantee scheme. Equally, important practical aspects such as the licence withdrawal from a failed bank are unharmonised legally and thus different from country to country. Thus, we have repeatedly stressed on the urgent need for legislators to introduce measures that would harmonise NIP and liquidation procedures for all banks and increasing robustness, predictability and trust in the resolution and insolvency regime for banks.

Another topic of discussion among experts remains the challenge faced by some deposit-funded medium-sized banks, without easy access to wholesale funding markets, which might be too small to be resolved, while at the same time being too big to be liquidated. It is argued that the current framework does not seem to provide a perfectly suitable set of tools for these situations, which could lead to an inefficient piecemeal liquidation process for those banks. There is currently no easy solution available, as losses must be allocated and these banks too have to become resolvable.

> *For most of the banks under SRB remit, resolution is the way forward in case of failure.*

One option could be to provide resolution authorities with administrative powers to transfer assets and liabilities in liquidation with the support of deposit guarantee systems. If done at national level, such measures could increase the efficiency and reliability of managing those failures, but divergences in NIPs among Member States (MS) would remain and the fragmentation could increase. Allocating these powers to a centralized European authority would ensure consistency in the treatment of banks, could lead to efficiency gains and enable the transfer of assets or liabilities to interested bidders in several MS. For these banks to be resolved, the focus might need to be on so-called "transfer strategies", in particular sale-of-business, when working on making these banks resolvable. This work must reflect on the role, which a national DGS or a European system can play to allow and support such interventions.

The creation of a common deposit insurance scheme remains an essential component of any solution in the long term. We welcome the efforts by the German Council Presidency to try to break the political deadlock with further technical work on the so-called hybrid model. However, we should maintain the ambition of the original idea, and work towards a European framework for bank liquidation with a fully mutualised European Deposit Insurance scheme. By contrast, with other more complex options discussed, a strong centralised fund will provide sufficient firepower and ensure that not least a timely pay-out could take place. We should not repeat past mistakes of leaving the house half-built and, thus, finalise the Banking Union by erecting and completing its third pillar. ●

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Fostering market integration and completion of the Banking Union

The focus of regulators, supervisors and central banks the last months has been on managing the COVID-19 pandemic and ensuring we have the right tools and framework to facilitate the recovery. The reforms we implemented following the financial crisis have shown their merits and the banking sector has so far proven resilient, but the second-round effects on the banking sector will become clearer over time. We have to make sure that we have in place a completed Banking Union, to weather the fall-out from this and any future crises, and protect the single market for banking.

Market integration is a key objective of the single market because of its benefits for economic growth. One of the aims of the Banking Union is to strengthen the resilience of the banking sector and reinforce financial stability. The challenge is how to reconcile financial stability in each Member State with European financial integration. The EU legal framework contains a number of mechanisms to address this challenge, yet the EU banking sector remains less integrated than it was before the financial crisis. Controlling of resources in local subsidiaries of banks, including restrictions of cross-border movements of capital, liquidity, and loss absorbing capacity persist, as local authorities are ensuring pre-positioning of resources in advance of potential stress conditions.

Within the single market, as recovery from the impact of COVID-19 proceeds, enhanced integration and consolidation in the banking sector will become all the more important. However, banks' appetite for consolidation and cross-border expansion is very low. Progress on revisiting some aspects related to fragmentation will not be possible without addressing the main concerns of host authorities, including the ▶

absence of effective and enforceable mechanisms that ensure a timely and credible transfer of non-prepositioned resources (i.e. capital, liquidity and loss absorbing capacity) by the parent to its subsidiaries, including in time of stress.

Another critical element that is missing from the Banking Union architecture and that would help fend off fears of contagion and address the sovereign-bank nexus is a European scheme for depositor protection. Such a scheme will ensure the protection of depositors regardless of the location of their bank. It will be important to get the financial safety nets for the Banking Union up and running. This includes the European deposit protection scheme, as well as the backstop to the Single Resolution Fund.

Such advances will be key in order to deal with ring fencing. Creating a new home-host paradigm will require restoring and consolidating trust and aligning incentives in terms of liabilities versus control both in a going concern and in a gone concern perspective.

Work on all aspects should continue in a comprehensive way.

Work also needs to continue on a further strengthened and aligned crisis management framework, to increase its efficiency and consistency. There is a broad consensus that the review of the resolution and depositor protection rules will provide a solid foundation to move forward with the completion of the Banking Union. We believe it is crucial that the resolution framework is fit for purpose and that adequate and proportionate solutions are available to address the issues of potentially any bank. An array of tools and sources of funding are available, which can and should be employed. In order to ensure that these are adequately used, a holistic reflection on the components of the framework, encompassing the tools, the available funding means, including the use of deposit guarantee schemes, and the interaction between resolution, liquidation and national insolvency rules is warranted.

We should also continue the work on the sovereign-bank nexus and in particular on how the impact of COVID-19 pandemic and the economic fallout will affect banks' exposures to sovereigns, financial stability and the need for safe assets at the EU level.

Work on all these aspects should continue in a comprehensive way, given their close interrelation, whilst taking into account any relevant lessons learnt from the current crisis or monitoring of the economic situation. In a well-functioning and strong Banking Union, banks will be better able to play their part to mitigate the effects of COVID-19 and support the recovery. It is important that all actors continue the work on Banking Union completion.

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Shaping the Banking Union and allowing for diversity in the EU's banking sector

Europe is experiencing an unprecedented economic shock. Its future development is still highly uncertain, including its eventual impact on the banking sector. Throughout this crisis, it will be crucial that banks maintain their lending activities to the real economy. As with the Global Financial Crisis of 2009, regionally focused institutions play a crucial role in supplying credit to SMEs, proving once again the great value of diversity in the EU banking sector. Maintaining this diversity has to be a guiding principle for every step taken in further shaping the Banking Union, be it with regard to supervision, crisis management, or depositor protection.

The European Commission's proposal for a European Deposit Insurance Scheme (EDIS) from November 2015 prominently failed to account for diversity – and this did not change with its later communication from October 2017. The Deposit Guarantee Scheme Directive (DGSD), which already completed the Banking Union, recognises Institutional Protection Schemes (IPSs) that have been used for decades by small and regional credit institutions, such as the German Savings Banks. IPSs are vital for independently governed credit institutions as they offer an overarching element allowing for network building and economies of scale. EDIS, a tool of centralization and transfers, would draw all financial resources from national guarantee funds and IPSs to the EU level, rendering their continued existence economically non-viable.

Being limited to providing depositor compensation only in the event of insolvency, EDIS would be unable to perform any of the fundamental tasks of an IPS. Institutional protection measures are a form of early restructuring to prevent insolvency through liquidity loans, equity injections, and potentially transfers of assets or a merger.

The current economic shock also shifts the focus on the negative systemic effects inherent to EDIS: creating moral hazard and ignoring effects of national economic policy on banking stability by mutualizing the resulting financial consequences; increasing contagion risk due to closer interconnectedness; decoupling risk and responsibility, thereby encouraging high-risk affinity of credit institutions – at the expense of banks with less risky business models.

Nonetheless, several steps remain to further improve the effectiveness

of the Banking Union potentially, including:

- Increasing the predictability and credibility of the EU crisis management framework is important. A key component will be a sufficiently large and readily available backstop that provides liquidity in resolution. There is also further room for clarity regarding the interplay of different national triggers for bank insolvency.
- It is almost inevitable that the ratio of non-performing loans will increase. A sustainable solution to keep NPLs from burdening banks' balance sheets and disrupting lending must be found.
- Solving the so-called "home-host issue" does not need EDIS, as restrictions on the free flow of capital and liquidity are set by supervisors out of a prudential perspective. An improved and more equal regulatory treatment of parent-subsidiary-structures and parent-branch-structures in deposit insurance could be discussed to ensure a level playing field in this area.

The debate should be on improving the proper functioning of the Banking Union and not focus on EDIS.

- Backstop mechanisms for national deposit insurance funds could be considered, e.g. via the ESM. It has to be emphasized however that this must not be a starting point for mutualisation.

EDIS would stand in sharp contrast to the harmonized requirements put in place via the DGSD, which allow for the coexistence of IPSs and ensure common standards for depositor protection in every Member State of the EU.

EDIS would eliminate diversity in the EU's banking sector, increase contagion risk and moral hazard. Going forward, the debate should turn to improving the proper functioning of the Banking Union and focus on how to maintain the diversity of the EU banking system and its stabilizing effects in times of crisis. ●

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Banking Union in times of Covid

The Banking Union (BU) was launched at the peak of the euro crisis in 2012, involving the transfer of large parts of the regulatory and supervisory framework from the national domain to the euro area. The Covid crisis implied a significant fragmentation of EU financial markets, which threatened to take us back to the pre-banking union era. Fortunately, EU leaders reacted swiftly and decisively, especially with the Next Generation EU package, and the risks of a further strengthening of the bank-sovereign doom loop have diminished substantially. What is left to be done now is to complete the banking union, to avoid being again in a vulnerable position.

The completion of the Banking Union is a matter of consistency: a common regulation, supervision and resolution authority (and resolution fund) is incompatible with deposit insurance remaining in national hands. The incentives of such a scheme are not properly aligned. Decisions taken (and in its case mistakes made) by European authorities cannot be backed by national deposit insurance funds, and ultimately national taxpayers. EDIS is not only about risk sharing but also about risk reduction. It implies diversifying the safety net of bank failures to a much wider and diversified group, thus preventing financial contagion between interdependent banks and reducing the likelihood of spillovers.

Over recent years we have seen different proposals for a common deposit guarantee scheme, with different degrees of ambition. Recent proposals seem to focus on the so-called "hybrid model", which is based on the idea of coexistence of a central fund and national Deposit Guarantee Schemes. The design of the transition phase could rely on a combination of national and European funds, as was done in the case of the Resolution Fund. But in any case, the final objective of a fully mutualised EDIS should be made clear from the outset. Otherwise, the full scheme will lack credibility and national funds will continue relying on the implicit backing of national Treasuries, maintaining the banking-sovereign loop.

The remaining steps towards banking union are well identified and will be easier to adopt with the recently agreed recovery package.

Another crucial element of the banking union that is missing is a European safe asset. The use of the German bund as a proxy is a source of fragmentation that needs to be corrected. Fortunately, the new EU recovery package includes a compromise to issue what should be the embryo of such common asset. Although the details of this issuance are yet to be decided, it is very likely that it will evolve to become a true European safe asset.

Another aspect that needs to be further refined is the application of the bank resolution framework. There is considerable dissatisfaction on its application to recent banking crisis, with very different approaches in different countries that imply an uneven playing field. Some recent proposals put the blame of this lack of consistency on the excessive automaticity of the ▶

bail in requirement. There may be improvements on a more flexible approach to the early intervention and recovery phases, including in the use of deposit guarantee schemes. But the absolute priority and a condition to further progress towards banking union should be to protect taxpayers' money.

In the Covid crisis the EU has shown once again its willingness to progress to a closer union and its capacity to overcome the difficulties. The decisions taken in recent months are bold and decisive. The remaining steps towards banking union are well identified and will be easier to adopt with the recently agreed recovery package.

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Covid-19 reinforces the case for the completion of Banking Union

For the banking sector, Covid-19 again shows the importance to break the link between sovereigns and domestic banks – in order not to amplify the divergent forces at play in the Eurozone. The Banking Union urgently needs to be concluded, by creating a European deposit guarantee scheme and a truly single market for banks with harmonised European rules.

While Covid-19 is an unprecedented symmetric shock, its effects differ per country. Within Europe, some countries had to impose more severe lockdowns than others. Moreover, lockdowns hit some sectors more than others. As the sectoral composition of economies differs across countries this too results in diverging economic effects.

Likewise, NPL developments will differ per sector, and given sectoral composition differences, will diverge across countries. NPL effects will take time to materialise, also given generous govt aid packages and regulatory arrangements. This gives both borrowers and lenders welcome time to prepare for absorbing the losses caused by Covid-19.

It is unfortunate that Eurozone countries with weaker starting positions, in terms of economic resilience, unemployment and fiscal room, appear to be more severely hit by Covid-19. As such, Covid-19 lays bare and adds to the inherent instability of the Eurozone, which is based on the different economic and fiscal profiles of its constituent member states, combined with insufficient mechanisms to counterbalance these divergent forces at Monetary Union level.

The Eurozone continues to have underdeveloped tools for Eurozone-wide public sector stabilisation, while Banking Union and Capital Market Union could be further enhanced to facilitate private sector stabilising flows.

The response to Covid-19 from the ECB and other EU authorities has been swift and strong; the regulatory and supervisory flexibility aimed at increasing banks' capacity to continue financing the economy demonstrated Europe's ability to act in a joint manner.

However, for the banking sector Covid-19 again clearly shows the importance to break the link between sovereigns and domestic banks – in order not to amplify the divergent forces described above. The Banking Union urgently needs to be concluded, by creating a European deposit guarantee scheme.

The prioritisation by the Germany Presidency of this topic is therefore most welcome. In addition, a truly single market for banks with harmonised European rules in all major areas, ranging from prudential to AML and digital ID must be achieved. As EBA has stated, increased levels of cybercrime, Covid-19 -related frauds were observed, these can only properly and effectively be addressed by a European approach.

Furthermore, it has been clear for a long time that a Europe-wide safe asset would help the process of reducing home bias in bank sovereign bond holdings. A deep and liquid market for a risk-free EU asset would allow banks to diversify their holdings. The European Recovery and Resilience Fund is a welcome step in this regard. It – temporarily – makes the EU the third-largest sovereign issuer after Germany, France and Italy by 2021.

> *For the banking sector, Covid-19 again shows the importance to break the link between sovereigns and domestic banks.*

Of course, the Covid-19 crisis and recovery are not primarily about banks. Primary concern is helping businesses and households recover. Banks are instrumental in this and are able to play that role thanks to sufficient buffers going into the crisis, and helped by regulatory relief measures that were quickly arranged. But bank loans, while an important source, cannot solve all funding issues.

European business equity also needs to be repaired. Therefore, policymakers should consider equity participation as well. While some initiatives are taken in this direction at country level, this is par excellence an opportunity for a Europe-wide approach. Unfortunately, solvency support was scrapped in the package agreed in July by the EU Council.