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Europe should commit to global financial cooperation for its own recovery

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History has shown that collective measures to tackle global problems reinforce individual countries' efforts. In fact, the need for timely and proactive global collaboration is even more important in times of stress. Combatting infectious diseases and safeguarding financial stability are both global public goods which know no borders and require collaboration among countries. We must avoid fragmented and disjointed measures. What implications does this have for European financial policies to foster a fast, sound and complete economic recovery across all EU countries?

First, Europe should champion full adherence of its financial policies to global standards and strengthen its contribution to international cooperation so as to mitigate the risks of costly global financial fragmentation. A decade ago, the Basel Committee on Banking Supervision agreed to a comprehensive overhaul of its regulatory standards in response to the global financial crisis. We are now seeing the full benefits of this, and our commitment should hold fast given the current urgency of combating the crisis. The banking system entered this crisis on a more resilient footing than twelve years ago, reminding us of the importance of a strong banking system, underpinned by global and prudent standards whose implementation, if so required, can be swiftly adapted in coordination. This proved particularly helpful in this crisis regarding capital and liquidity buffers. It will thus be critical to ensure the EU implements the outstanding elements of Basel III in a full, timely and consistent manner.

Second, all national and EU authorities should embrace a general equilibrium approach and consider all financial sector/real economy interactions. Under this approach, it becomes apparent how the robustness of the banking sector is key to the resilience of the economy as a whole. In this regard, banks have helped cushion the temporary supply and demand shocks triggered by the pandemic, supported by swift monetary, regulatory, supervisory and fiscal policies; and credit supply should help spur and fuel the recovery phase. But, undoubtedly, the crisis will significantly impact the quality of banks' credit portfolios, on a scale that will depend on its ultimate severity. And we know that an economic crisis, combined with a financial crisis, tends to be deeper and longer. Banks and authorities must thus closely monitor and mitigate risks and vulnerabilities, and stand ready to reinforce banks' resilience if needed.

Third, cooperation can also be decisively enhanced within Europe. In the wake of what some have even called a Hamiltonian moment for the EU, with the approval of a common recovery fund, there are still striking gaps in the euro area financial architecture preventing the full eradication of fragmentation risk among European countries. Plugging such gaps by finalising the Banking Union with the creation of a mutualised European Deposit Insurance Scheme, by pushing ahead with the initiatives under the Capital Markets Union and by taking full advantage of the forthcoming issuance of sizeable amounts of European safe assets should also be at the fore of EU financial policy priorities. That may help create the appropriate institutional and regulatory conditions for banks, investors and other stakeholders to adapt to the profound challenges the financial sector is and will be facing in the future.

The pandemic has made some pre-existing challenges more pressing, e.g. low bank profitability, the opportunities and disruptions of financial technology, the impact of the continued rise in both government and private-sector debt, and the increasingly important need to mitigate climate-related financial risks. And new challenges might emerge due to structural changes in the post-pandemic economy. Let us give savers, investors, financial clients and all European citizens the best chances to adapt and succeed in the resulting landscape.