ESRB
European Systemic Risk Board
European System of Financial Supervision

Press release

2 July 2020

The General Board of the European Systemic Risk Board held its 38th regular meeting on 25 June 2020

At its meeting on 25 June 2020, the General Board of the European Systemic Risk Board (ESRB) again focused on the consequences of the coronavirus (COVID-19) pandemic for the EU's economy and the financial system. Even if the acute spread of COVID-19 seems to have been contained in Europe, the economy is still being affected by the severe supply and demand shock it has caused, as well as by the elevated levels of uncertainty regarding the evolution of the pandemic and its economic and financial stability implications. The General Board acknowledged that the rapid and unprecedented policy actions by EU bodies, governments, central banks, and supervisory and resolution authorities to mitigate the negative impact of the COVID-19 pandemic on the real economy has so far prevented the economic crisis also becoming a financial crisis. However, given the depth of the economic recession, medium-term risks to EU financial stability have increased.

With this in mind, the General Board discussed the channels through which the COVID-19 pandemic could severely affect the EU financial system and its capacity to provide financial services to the real economy. First, this severe economic shock could trigger widespread defaults in the real economy, especially among firms and households that were already over-indebted and those facing income uncertainty. While the unprecedented measures taken by governments and at the EU level can help to mitigate the negative effects of the pandemic on the real economy, the depth of the recession calls for close monitoring of developments in this area. Second, despite a recent rebound in asset prices, there are still risks related to high volatility in financial markets and a potential tightening of financial conditions given the substantial degree of uncertainty about the path the recovery will take. Third, as a result of both the support measures taken by governments and the reduction in economic activity, concerns about government debt levels may re-emerge. Lastly, the difficult macroeconomic environment, together with uncertainty, low growth prospects and the low interest rate environment, poses significant challenges to financial institutions, particularly in relation to profitability and asset quality. The General Board also highlighted that all the above sources of systemic risk are interlinked and can become aggravated if there is a second wave of the pandemic or the economic recovery is delayed.

Against this background, the ESRB General Board continues its COVID-19-related work in the priority areas that it identified earlier this year.

European Systemic Risk Board
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@esrb.europa.eu, website: www.esrb.europa.eu

An ESRB working group has been set up to facilitate the implementation of the ESRB Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic, which held its first meeting on 17 June 2020. In line with the above mentioned Recommendation, the General Board emphasised that it is important for macroprudential authorities to monitor the implications of support measures at the national level and, in particular, for the ESRB to monitor any cross-sector and cross-border issues that may arise. The templates to support this monitoring were published on 25 June. The General Board will discuss the results of the monitoring exercise in the second half of 2020.

The General Board agreed on the follow-up to the ESRB Recommendation and report on liquidity risks arising from margin calls. In this regard, the ESRB will analyse the structure of the clearing market in Europe from a financial stability perspective and its resilience in times of stress. This work will focus on interconnectedness and concentration in the provision of clearing services by central counterparties and clearing members (also in view of increased market activity). Furthermore, the ESRB will analyse developments in non-centrally cleared markets, including the anti-procyclicality performance of the International Swaps and Derivatives Association's Standard Initial Margin Model used widely for calibrating margin exchanges in bilateral derivatives transactions. The ESRB will also continue to (i) promote the sharing of relevant information by authorities, within their mandate and respecting confidentiality, and (ii) jointly develop analytical tools to enhance the ESRB's analytical toolkit.[1]

Furthermore, the General Board exchanged initial views on the stress test scenario for the European Banking Authority's 2021 EU-wide stress test.[2] The Advisory Scientific Committee (ASC) contributed to this discussion with a note providing insights on reforming bank stress testing in the EU. An ASC Insight note will be published in the coming weeks.

Finally, the General Board appointed Enrico Perotti, Professor of International Finance at the University of Amsterdam, as member of the ASC. Professor Perotti replaces Daniel Gros, whose mandate at the ASC has come to an end. The General Board expressed its sincere gratitude to Daniel Gros, who has made a strong contribution to the work of the ASC since 2012.

The ESRB is releasing the 32nd issue of its risk dashboard **today**. The risk dashboard is a set of quantitative and qualitative indicators of systemic risk in the EU financial system.

For media queries, please contact William Lelieveldt, tel.: +49 69 1344 7316.

1 Also through initiatives such as the ESRB Alberto Giovannini Programme.

2 In response to the COVID-19 pandemic, the European Banking Authority (EBA) has decided to postpone the 2020 EBA EU-wide stress test until 2021.

European Systemic Risk Board
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@esrb.europa.eu, website: www.esrb.europa.eu