EUROPEAN BANKING AUTHORITY

BANKING STAKEHOLDER GROUP

BSG 2021 061

October 2021

BSG Own-initiative paper on COVID-19 recovery and resilience

The outbreak of the coronavirus was the biggest shock to the world economy since the Second World War with the resulting consequences for supply and demand. The response of authorities, banks and private agents has been laudable.

To avert disastrous public health, socio-economic and financial consequences of COVID-19, countries in Europe opted for different forms of lockdowns and mobility restrictions. These measures have exacerbated the socio-economic impacts while attempting to prevent the health systems from collapse. To reduce the economic hardship, Member States deployed a comprehensive set of expansionary fiscal and monetary stances like liquidity support, relief measures like moratoria or other state-aid programmes.

The response to the crisis has been synchronised through unprecedented interventions in financial markets by central banks, through government aid to employees and firms and the expansion of budget deficits, with the aim of facing the stoppage in the economy generated by the COVID-19 outbreak, by helping to maintain income until the economy restarts.

Regulators have explicitly assumed a macro-stabilisation role aiming to maintain credit flows to firms and households. Maybe for the first time the macroprudential perspective has gained prominence with respect to the microprudential perspective.

The banking system has been playing a very important role in channelling government interventions to get the economy back on track, granting sufficient liquidity, providing support to individuals and businesses and channelling specific state-aid programmes to counter the damage inflicted during the pandemic to preserve the continuity of economic activity during and after the outbreak. The sector has also proved its operational resilience by providing services to clients and adapting to remote forms of work. What is also significant is that during the lockdown they have shown what is possible in terms of speed and innovation.

Consumers are navigating the crisis with a sense of uncertainty, anxiety and hope for a return to some sort of normality. When considering the impacts on income, consumers (individuals and households) suffered distinct effects of the pandemic. The unemployment rates in the EU rose sharply in Q2 and and Q3 of 2020[1] reaching just below 8%. The average includes different levels of unemployment and rises within the EU. These figures refer only to those who lost jobs. There were

[1] See https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics

also a significant number of cases where there was a reduction in income, whether due to measures similar to furlough or due to stoppage in activity. In all cases, this meant an impact on households' income levels and consequently on their ability to comply with their commitments, such as loan repayments. To address this effect, there was an initial move by credit institutions to provide their own devised loan repayment holidays. Subsequently, the EBA provided the framework for an EU-wide provision of moratoria, for households and businesses, allowing for a temporary implementation of support measures. Many households did benefit from these measures. However, they were established under different national contexts where in some cases state guarantees were more prominent than in others.

Another effect was a shift in the way consumers related to financial services and their providers. Due to the imposition of measures to prevent spreading the virus, lockdowns especially, in-person shopping and commercial activities were mostly halted. This resulted in a strong push towards digital financial services, significantly in relation to payments. The change in patterns of using cash and shift to electronic payments was evident since Q2 2020. In a recent speech[2] Fabio Panetta, Member of the Executive Board of the ECB, mentioned that there was a decline in cash payments and the reasons were well-known. These included the fact that making electronic payments was made more convenient; there was a fear of contracting the virus through banknotes and coins or by touching the payment devices; and the authorities' recommendations to pay cashless.

In this note, we discuss the impact of the above-mentioned measures since COVID-19 erupted (March 2020) considering consumers, financial institutions and regulators/supervisors' perspectives.

1. Implications for Banks and the Financial Sector

The phase out of the crisis

As we have already mentioned, the outbreak of the COVID-19 pandemic has found a banking sector much better prepared than in the previous crisis, which is no longer perceived as part of the problem, but of the solution.

At the time of writing, and according to the EBA Benchmarking Exercise, there are moderate signs of deterioration: non-performing loans (NPLs) increased only slightly mainly on more affected sectors, the rise in stage-2 loans, the volume of forborne loans and the cost of risk show a moderate deterioration.

The cost of risk increased at European level from 49 pbs in 2019 to 75 pbs in 2020 year end. Nevertheless, differences between EU and USA banks in terms of provisions were mainly due to the application of IFRS9, which creates lower volatility.

The transfer from stage 1 to stage 2 is mainly due to loans under moratoria or state-guarantee, while considering the wide dispersion between countries and banks. With the progressive expiry of moratoria, the stage 2 share has been overall increased.

Related to capital, CET1 ratios increased since Q2 2020, compensating for the negative effects in the first part of the year, mainly due to rising capital as well as contracting risk-weighted assets (RWAs). The liquidity coverage ratio (LCR) reached 165.7% in Q2. On the liquid asset composition, the

[2] See https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210615~05b32c4e55.en.html

increase in L1 cash and reserves was mainly due to growing exposures to central banks, following the TLTRO III allotments.

Structural challenges for the Financial Sector

On top of the COVID-19 impact, important challenges to the banking sector both in the short/medium term and in the long run persist:

Challenges in **the short-to-medium term**: low profitability and asset quality

The big structural challenge for the banking sector is **low profitability**. This is a European trend especially true for banks whose business model is mostly based on interest revenue rather than fees, more in Europe than in the US and due to different negative interest rates of the ECB compared to the rate of the FED.

The main factor behind these extreme low levels of profitability is the all-time low interest rates, negative in most of Europe, along with the increase on loan loss provisions, only partially compensated with cost-reduction programmes. This has compressed interest spreads, net interest, which is very relevant for commercial banks' income and bottom-line profits.

Additionally, the COVID-19 crisis will put additional pressure on banks' profitability as interest rates will remain very low for longer, subject to rising inflation starting to materialise in the US and recently also in many Eurozone countries. Monetary policy stance would continue to play an important role as low interest rates will remain lower for longer. This policy compresses net interest margins and hampers profitability especially in the EU market, where banks might have to deal with flat yield curves for longer.

The second challenge is related to **asset quality**. COVID-19 reaction measures protecting household incomes and firms have prevented insolvency problems, but how these measures will be phased out will become increasingly important.

As firms have been helped, they have increased their leverage and many lack capital. So, a firm's own resources must increase to avoid firstly feeding higher non-performing loans in banks, more in banks in (i) hardest-hit economies; (ii) with exposure to the most affected sectors by Covid-19 (social contact); and (iii) in countries with low government support. To reiterate, this will affect banks and countries differently, and, if not properly managed, may become a threat to European integration and convergence. The Next Generation EU plan is a crucial initiative to reallocate resources to countries most in need, but its size remains limited in terms of GDP, especially when compared to stimulus packages implemented in other countries, in particular in the US.

Challenges in **the long run**

In the post-COVID period, there will still be pending issues to address within the banking sector: digitalisation, competitive landscape and government support.

The current regulatory landscape and the way in which regulators and institutions deal with these trends will be key for the future.

Digitalisation accelerated as the pandemic resulted in clients preferring to engage digitally with banks. This has provided an impulse to the transformation of the banking sector and is not only opening up an additional opportunity to reduce costs, but another important factor to foster inclusion to benefit from digitalisation is regulation, which has to keep pace with business

objectives, both by facilitating digital business and adequately protecting customers. For example, the concept and amount of data required for customer onboarding dates back to the traditional method of opening a bank account, although it has also massively increased due to regulations such as MIFID, PRIIPS, AML-CFT, and now ESG, creating a massive imbalance between the account-opening process at regulated banks compared to 'wallet-opening' at pure digital non-bank providers.

The pandemic required banks to challenge the status quo and to be more agile. It also provided an opportunity to exploit digital skills and to start thinking about new products, services and ecosystems. In this context, the financial services industry continues to evolve, with the emergence of new products and services, together with changing consumer needs and attitudes.

The use of technology and data have become strategic in how financial services and products are designed and delivered to clients.

This fundamental change in financial services urges regulators to consider what the future of regulation might look like. Regulators need to be agile during times of change and this means being able to rapidly create, adapt and enforce regulations.

In a more adaptive, collaborative and outcome-based regulatory approach, regulators might have a better chance to balance consumer protection and innovation effectively.

There are voices that say that COVID-19 should be promoting **banking consolidation** as a way to increase efficiency. Bank profitability has been very low, which has been exacerbated by the COVID-19 crisis and consolidation is one lever to increase efficiency and improve profitability. Additionally, supervisors seem to favour further consolidation (mergers and acquisitions (M&A)) as a way to strengthen the banking systems (see SSM Guide on Consolidation). However, significant obstacles remain in particular as regards cross-border consolidation, given the lack of fluidity in the free flow of capital and liquidity at pan-European groups, the disincentive for growth created intentionally by the G-SIB buffer, complemented in Europe by the O-SII buffer, etc. In practice, there seems to be limited appetite to encourage the formation of banking champions, while the preservation of the business models of smaller banks is seen as vital by many member states. Many have also seen diversity in the banking sector as an asset. The current debate (lack of progress) about the completion of the Banking Union and the crisis-management framework illustrates this tension between two different banking models, one based on large diversified banks able to compete across the EU and beyond, and ensure European 'strategic autonomy' (see January communication by the Commission), and the other, based on a large number of smaller banks, still mostly under national supervision, able to serve local clients with full knowledge of local specificities. The capacity for Europe to ensure the co-existence of those two approaches will be key in the capacity to maintain resilience in the EU banking sector, including in the calibration choices to be made in the upcoming transposition of the final Basel III accord.

Sustainability and ESG risks are becoming more and more predominant in the banking agenda. This requires a new effort from financial institutions to build capacity on the matter both from a client perspective and to comply with regulatory requirements on the matter (P3, GAR, Green Stress tests, etc.). Around 2 600 credit institutions will report ESG data under the CRR and Taxonomy Regulation. In comparison to this, around 49 000 large and listed companies will report

their green CAPEX and OPEX as soon as the corporate sustainability reporting directive (CSRD) enters into force. Banks recognise their role as intermediaries and implement data requirements hand in hand with their customers. Regulators can play an important role by ensuring the same understanding/uniform definitions and adequate phasing-in periods so that companies can first implement, and banks then use the data. Comparability will be an essential component also at the international level to help Europe to maintain its leadership on this topic.

Banking depopulation. As digitalisation is penetrating and consolidation is happening, banks are reducing the importance of the brick-and-mortar model, closing branches with an efficiency criterion. This is having an impact on the physical presence of traditional branches in rural areas or less-populated locations. This might have an impact on certain population sectors that might be losing access to basic financial services.

2. Implications for Regulators and Supervisors

During the outbreak of the pandemic regulators and supervisors have devoted large efforts to foster their macro-stabilisation role to ensure credit flows to firms and households as their primary goal, while performing their microprudential role of preserving the safety and soundness of individual financial institutions.

The combination of those two goals has nevertheless created trade-offs between the micro and the macro dimensions of prudential policies. Supervisors are in a challenging situation as most of the relief measures have also made financial health more difficult to assess as they have contributed to freezing the economy and ratios of non-performing exposures (and consequently loan loss provisions) have barely been affected, at least to date. Therefore, supervisors need to find ways to distinguish across institutions to better understand their capacity to absorb losses and continue providing credit to the economy in a sound and safe environment, in a context in which uncertainty is seen as an additional risk to properly evaluate the impairments.

Regulators have implemented a large range of temporary measures: flexibility in capital requirements, a pragmatic approach to evaluate and classify expected losses according to IFRS9, no automatisms for the treatment of forbearance in moratoria and allowances to use capital buffers. Some of those measures have already been phased out, notably on moratoria.

It seems relevant for the Banking Stakeholder Group (BSG) to analyse the stigma effect in the use of buffers. Basel III acknowledges that microprudential buffers (conservation buffers and P2G) can be used in cases of adverse shocks and that macroprudential buffers (countercyclical buffers), can be used according to the economic cycle. Nevertheless, the practice has not been aligned with those definitions and it is important to understand why they have not contributed to mitigating the impact of the downturn as intended in Basel III. Use and effectiveness of macroprudential tools should consequently be re-evaluated.

3. Implications for Consumers (households and businesses)

There were distinct impacts of the pandemic on households at various levels, and one of them was on households' income levels. There was a major impact on employment and consequently on income, especially in the workforce of some sectors and regions within the EU, while many households kept those levels. The reduction or elimination of income meant serious challenges for households to maintain their commitments, including the repayment of credit – mortgages and other loans. The moratoria provided throughout 2020 and with a prolonged span to 2021 under the limitations imposed via the EBA Guidelines allowed for temporary relief. While this benefitted many households, its conclusion, due to the 9-month 'maximum length of the moratoria', signifies the return to repayment plans for those households. In some MS and for those households that have not yet recovered from job loss or the full return to their previous income levels, this represents a major challenge. The external shock from the pandemic may imply an unwilling and unforeseen inability to repay loans, with a possibility of losing main residence properties for some households.

Consumers who are still facing the effects of the pandemic on income would have expected further time under moratoria regimes enabling their financial recovery. The moratoria regimes, whether public or private, were subject to the EBA's accommodation under a harmonised framework. Although their implementation had a significant number of issues – design, access and coverage (see box) – those who were eligible were given some 'breathing time' to recuperate from the exogenous impacts [from the pandemic] in their financial situation. As possibly this was not a common scenario in all the EU MS, as it was very much known that the approaches taken by MS in the application or not of direct public aid, for those MS where the impacts remain significant, households continue to be distressed and under significant pressure to re-engage in full repayments of their mortgages and loans, while not enjoying pre-pandemic income levels. An extension of moratoria would have addressed the needs of those households and would have been a signal of understanding of the internal market circumstances, context and differences. At least in one MS, the Parliament voted and agreed to the extension of moratoria for households and businesses, but it was not possible to implement this due to the position taken by the EBA.

Considering that the moratoria extension is impossible, the end of those regimes must be followed up by an implementation of harmonised, extensive and compulsory application of rules for credit institutions to allow for restructuring/flexibility of loan repayments with the obligation to show that proposals were made and that they were in accordance with acting with a more in-depth assessment of households' income and capacity to provide a more targeted solution.

With regard to payments, in many MS, the push for digital payments has gained momentum. While many consumers have adapted to and adopted digital/electronic payments, there is still a considerable number of EU citizens that do not, cannot or are unwilling to engage with those payments. It is key for EU citizens to maintain access to cash and that cash is universally accepted in parallel to electronic payments. There is an increasing number of branches and ATMs being closed and the pandemic may be used as another rationale for that movement. This is the time to act to prevent a scenario of extreme exclusion of EU citizens.

The cost of payments is an ongoing issue and remains on top of consumers' concerns. With the push towards digital/electronic payments comes the issue of full dependence on the cost of those payment services – including card annuities, cost per credit transfer and instant transfer. The

pandemic has shown that households are the weakest link in the chain. It is essential that the conditions under which they are left to engage with financial services are thoroughly scrutinised including the applicable pricing.

Regarding contactless card payments, the maximum amounts have been raised in many MS to the limit of 50 Euros, reaching the maximum level of exemption of requirements for Strong Customer Authentication (SCA) under the PSD2. Although consumers seemed to be informed of this, they would be better off if the choice of setting those maximum limits was in their hands, limiting their exposure to potential fraud. The EC Retail Payments Strategy refers to a possible assessment to make this feature available and consumers remain positive that this will be available.

Finally, the implementation of SCA requirements for online shopping with card payments is not yet finalised. Consumers are facing different levels of security measures when performing purchases online and there is a concern that the pandemic impact could be used as a reason for the delay, even though the rules and metrics have been known since 2017.

Box 1: National experiences with the implementation of moratoria

In Portugal - Regarding credit moratoria there were issues with the design as the public moratoria implied that interest was accrued during the payment holiday period – this resulted in additional interest to be repaid once the moratoria ended, as consumers were asked to pay interest over interest. On access, the public moratoria only covered initially main residence mortgages and at a second stage wider mortgages and consumer loans destined for education purposes. This meant that a significant number and amount in consumer loans were left out. They were then addressed by private moratoria distinguished by banks (which left out credit cards) and non-banks. In this latter case, the moratoria only lasted until 31 December 2020, while the one from banks ended on 31 March 2021. Conditions to access moratoria were quite strict and confusing. Many consumers were not aware or could not understand whether they would qualify for the moratoria. The strictness and excessively technical wording made it very difficult to understand criteria. There were different criteria, timings and end dates in the legal moratoria, the private moratoria from banks (also with differences regarding whether it was a mortgage or consumer loan) and from non-banks.

In Spain, legislative moratoria applied to debts, mortgage loans and the temporary suspension of the obligations derived from credit contracts without mortgage guarantees for individuals who were in a situation of economic vulnerability as a result of the health crisis caused by COVID-19. As the requirements were very strict, banks implemented their own moratoria called 'sectorial'.[3] *Legislative moratoria were granted for individuals experiencing economic vulnerability. However, the definition of vulnerability was so strict and confusing that very few people were able to access it. On the contrary, non-legislative moratoria requirements were much more accessible for*

3 For full conditions, see Real Decreto ley 19/2020, de 26 de mayo, Real Decreto-ley 25/2020, de 3 de julio and Real Decreto-ley 26/2020, de 7 de julio published by the Boletín Oficial del Estado (BOE).

consumers, so practically all applicants were granted it.

In Italy, a consumer organisation reported[4] *that borrowers initially had difficulties in accessing the existing public scheme (where half of the interest incurred during the moratorium period were paid by a state fund). There was an antitrust investigation launched in June 2020 regarding lack of information provided to consumers referring to the time needed to access the public scheme and its costs, and banks imposing unjustified additional conditions. The consumer organisation received several complaints up until October 2020.*

The Office for Competition and Consumer Protection (UoKIK), from Poland, also reported[5] *concerns showing that consumers applying to a bank for statutory credit holidays were often offered the bank's more expensive commercial payment holidays. UoKIK initiated proceedings in this respect.*

In Germany, a consumer organisation reported[6] *that there were additional (unjustified) costs for consumers (e.g. having to pay interest, higher instalments or having to pay a fee for changing instalment plans) in several of the payment deferrals under the public scheme. That organisation called on the German regulator Bafin to investigate. This organisation also reported*[7] *that legislative payment moratoria ended in July 2020.*

In Belgium, a consumer organisation demanded[8] *more transparency about the costs involved in pausing repayments. One of the issues shown was a lack of transparency regarding credit protection insurance sold with loans, and whether in case of a deferral, an additional premium would be charged to the consumer.*

In Cyprus, the lack of information [9] *provided by banks on the high costs of payment deferrals was reported numerous times.*

In Ireland, a consumer association reported[10] *that applications for all moratoria ended in September 2020; while in France, a consumer organisation indicated*[11] *that most payment moratoria ended at the end of November 2020.*

It is becoming increasingly clear that the impact of the crisis differs widely across sectors, requiring more tailored solutions. While some business models may be permanently affected, others continue to suffer from travel and movement restrictions, but ultimately should recover when the health situation is under control.

Therefore, to minimise job losses and prepare for the recovery, it is essential for banks to continue to provide liquidity bridges to those viable companies that still suffer from temporary loss of income.

[4] https://www.altroconsumo.it/soldi/mutui/news/indagine-sospensione-mutui-e-prestiti

[5] https://www.uokik.gov.pl/news.php?news_id=16670

[6] https://ssl.vzbv.de/pressemitteilung/stundung-von-krediten-verbraucher-zahlten-drauf

[7] https://ssl.vzbv.de/pressemitteilung/stundung-von-krediten-verbraucher-zahlten-drauf

[8] https://www.test-achats.be/argent/emprunter/news/seconde-vague-report-pret-hyp

[9] https://thecyprusnow.com/the-consumers-association-sees-the-favorable-treatment-of-the-banks/

[10] https://thecai.ie/wp-content/uploads/2020/10/Mortgage-Payments.pdf

[11] https://www.quechoisir.org/billet-du-president-credits-conso-et-covid-19-les-banques-font-l-autruche-n86923/

Nowadays, when more state-aid programmes are amended and prolonged and many aid programmes are ending, it is necessary to ensure banks can maintain their role in channelling the state-aid liquidity, by allowing flexible interpretation of the prudential regulation without over-punishing households and businesses that have been severely affected by the crisis. It is also necessary for existing aid provided since the beginning of the crisis to be restructured when needed, on a case-by-case basis to adapt to each client-specific situation. To do this, it is essential that accounting and prudential rules are not forced to classify such viable companies as NPL.

In this sense, it is also important to design mechanisms to recapitalise firms. We have already seen countries implementing different options to recapitalise viable firms with a combination of private/public funds.

Many companies' financial statements have shown a significant decrease in income compared to pre-crisis periods, and a reduced level of equity, if not negative equity. Backed by government entities, comprehensive liquidity support and either direct investments or guarantee schemes that enable third parties to enter into an equity position of affected business can enable viable entities to recover. The EU should favour EU-wide corporate recapitalisation schemes, as well as encourage country-level initiatives and ensure in this phase that support measures present a higher level of homogeneity across Member States than what we have foreseen during the initial stages of the crisis in which the implementation of moratoria and state-aid programmes differ widely across countries.

Box 1: The Code of Best Practices (Spain)

Practices such as the 'Code of Best Practices' in Spain that establish a framework for restructuring state-guarantee loans are highly welcomed.

In particular, this Code conveys three main ways in which a state guarantee loan can be restructured in which the State assumes the proportion that has been guaranteed and banks will bear the rest:

- an extension of the existing loan maturity;
- conversion into a participation loan; or
- loan haircuts.

This type of practice reinforces the balance sheet of viable entities that are suffering a temporary deterioration in their accounts due to COVID-19.

And, although there is government support, they are designed in a way that requires private capital to take a first step or a leading decision, as a market way to try to discriminate between viable and non-viable firms.

It is also important to improve debt restructuring procedures and national insolvency regimes to tackle the expected increase in restructurings, defaults and insolvencies of corporates and households in the wake of the COVID-19 crisis, which will be even more relevant once the public support measures end. The more efficient the insolvency system, the easier it will be for a country to exit the crisis with a larger value of assets instead of having them stranded in non-viable firms.

To this end, although these regimes are different in almost every country, there are proposals that may be of general use:

- Increase the resources available for the judicial system that must deal with insolvencies.
- Encourage the use of out-of-court agreements and simplifying many (as a pre-defined package for small firms).
- Improve the design of the insolvency proceedings for the self-employed and small business owners, to adapt them to their specific characteristics.
- Develop special insolvency mechanisms (e.g. fast-track procedures) for micro-firms and the self-employed; and low-cost, fast procedures to manage the bankruptcy of individuals with low levels of debt and assets.
- Lower the majority thresholds to approve a restructuring agreement.

If these challenges are not addressed or are only partly addressed or addressed poorly, then the issue of how to manage NPLs will become key, with the potential to make the recovery slower or the crisis worse.

Only with such measures can the bankruptcy wave not only be minimised but pre-emptively addressed and jobs be preserved as much as possible. Otherwise, all fiscal support and liquidity provided so far will have been done in vain.

4. Final considerations

Considering that it is still highly uncertain how the macroeconomic shock will impact the banking system, we think it is necessary to carefully assess the validity period of the extraordinary measures adopted by the regulatory authorities, aiming at allowing the full effectiveness of measures established by national governments to mitigate the negative impact on the coronavirus economy. A regulatory approach allowing banks some flexibility could be useful in order to avoid a massive cliff effect in the level of NPLs at the expiry of the extraordinary measures.

As fiscal support may need to start to be phased-out, or become more targeted, banks will increasingly have to maintain/increase their level of support to the economy, while benefiting from fewer state guarantees, and face some inevitable NPL rise, as well as IFRS9 pro-cyclical provisioning impact. In this context, and given low profitability, capital formation will be low and part of it will be used for cost restructuring (branches and personnel lay off the inevitable process), bank capital could be a scarce resource to finance the recovery.

In order to avoid a cliff effect when fiscal support is phased out, the regulators and supervisors should bear in mind the following aspects:

- It is important to realise that the EUR 750 billion New Generation EU recovery package will only support the recovery starting from late 2021. Until then, a pragmatic approach with regard to support measures, whether fiscal, monetary or regulatory, be it at the local or EU level, is required. On the other hand, banks are also meant to be active parties to the deployment of the EU recovery package.

- Ensure that no unnecessary pressure on provisioning is put on EU banks, above and beyond international standards. The calendar provisioning imposed in the 2017 NPL action plan

needs to be implemented with judgment, and the 'comply or explain' process needs to be respected by supervisors, to avoid any overprovisioning, that would unnecessarily reduce the amount of capital that could be deployed to finance the economy, while assuring that banks are correctly identifying and provisioning the credit deterioration.

- Ensure that capital buffers are truly usable, by addressing the main obstacle which is the reduction of the distance to the Maximum Distributable Amount (MDA). Ensure also that the relief measures intending to address excessive procyclicality are maintained either for a longer period or permanently.

- Ensure that future legislative pieces do not overly impact banks' capital requirements, which would neither be sensible from an international competitiveness point of view, nor would it serve the European economy in the crucially important recovery phase if more capital than necessary and appropriate is 'locked in'.

- Ensure that the appropriate restructuring framework is defined and implemented to properly support viable companies at the time that efficient insolvency regimes are in place. That would ease countries to exit the crisis with a larger value of assets instead of having them stranded in non-viable firms.

- Prioritise recovery-friendly policy work, such as the development of the Banking Union, Capital Market Union, Digitalisation and Sustainability over other aspects of the policy agenda which have an intrinsically recessive effect.

- Regulators need to be agile during times of change and this means being able to rapidly create, adapt and enforce regulations. In a more adaptive, collaborative and outcome-based regulatory approach, regulators might have a better chance to balance consumer protection and innovation effectively.

- There should be a view to provide support to households that continue suffering from the impact of the pandemic. Due to different reasons, many households will not have recovered pre-pandemic income levels and thus face difficulties in honouring their repayments, not because they don't want to but because they are unable to. Under this scenario, national authorities should implement measures that will provide effective and visible support, ensuring that credit providers engage in setting out affordable repayment plans allowing those households for the time to recover their income. These solutions must be demonstrated and followed-up closely, avoiding any additional costs and increasing of interest rates, while protecting main residence properties from foreclosures.