IN-DEPTH ANALYSIS

Requested by the ECON committee

When and how to unwind COVID-support measures to the banking system?

The quest for safe landing place

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Abstract

Bank loans increased considerably in 2020, due to an unprecedented wave of extraordinary measures aimed at supporting bank borrowers. Where constraints posed by public-sector deficits were tighter, the response was more focused on contingent/fiscally-neutral measures (e.g. public guarantees and moratoria), which might lead to greater unbalances in the future. Post-Covid recovery can be expected to be selective in nature, both across industries and within. Accordingly, emergency measures cannot simply be dismantled, but rather must be replaced by interventions aimed at smoothing the transition towards a different economic environment.

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LIST OF ABBREVIATIONS

CAPB	Cyclically-adjusted primary balance
CCB	Capital Conservation Buffer
CCyB	Counter-Cyclical Buffer
CET1	Common Equity Tier 1 capital
CRR	Capital Requirements Regulation - Regulation (EU) 2013/575
EA	Euro Area
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECL	Expected credit loss
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EP	European Parliament
GDP	Gross domestic product
GSII	Global Sistemically-Important Institution
IFRS	International Financial Reporting Standard
LECL	Lifetime expected credit loss
NPL	Non-performing loans
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
SICR	Significant increase in credit risk
SME	Small-Medium Enterprise
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
UTP	Unlikely to pay

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EXECUTIVE SUMMARY

Background

The Covid-19 pandemic is having disruptive effects on the real economy, as GDP is expected to shrink by 6.8% in the Euro Area and by 6.4% in the EU[1]. Still, bank loans followed a specular path and rose fast starting from 2020Q2, right when GDP was experiencing an unprecedented drop. Strong positive changes in loan growth occurred for industries – like manufacturing, transport, accommodation and food service – which were badly hit by the pandemic.

The banks' willingness to lend, notwithstanding a severe economic downturn, can be explained by a wave of support measures that were promptly issued since the very first weeks of the pandemic. This included *direct measures*, mostly focused on easing capital requirements and isolating bank accounts from the adverse effects of the pandemic, as well as *indirect* ones aimed at supporting borrowers.

Analysis

We survey the main direct and indirect measures issued in the last 12 months, in order to understand when and how they can be rolled back without causing further economic and social disruption. Direct measures have mostly addressed:

- bank capital adequacy, by releasing regulatory buffers and requesting that banks retain earnings and other distributions to reinforce their capital base;
- default recognition, allowing lenders to avoid treating moratoria and public guarantees as default triggers that cause exposures to be impaired;
- NPL provisioning and clean-up, freezing the CRR prudential backstop on non-performing exposures secured by public sector guarantees;
- provisions on loans experiencing a significant increase in credit risk, requesting banks to avoid being overly procyclical in identifying borrowers for which the probability of default has increased since loan origination.

Indirect measures required fiscal provisions or changes to national law and therefore were mostly introduced by individual Member States. They included:

- immediate fiscal measures, like subsidies and tax exemptions, that increased public deficits and debt;
- contingent fiscal measures (e.g. state-sponsored loans, tax deferrals and public guarantees), which did not immediately increase the government's deficit, but may have a substantial impact on the public sector's accounts in the future in case the measures are called;
- fiscally-neutral measures, like moratoria, which do not entail costs for governments (neither immediate nor potential).

Based on the evidence reported below, indirect measures seem to have followed different patterns across Member States: where constraints posed by public-sector deficits and sovereign debt were tighter, the governments' response to Covid-19 was more focused on contingent and fiscally-neutral interventions. However, such measures are intrinsically fragile, since they might lead to greater fiscal

[1] Source (Eurostat 2021). First estimate provided on February 16, based on seasonally- and calendar-adjusted quarterly data.

unbalances (as deferred taxes may not be paid, and public guarantees must be honoured if called) and to a significant rise in bank loan defaults once moratoria are lifted.

Policy implications

The pandemic is permanently changing the European economic texture: some sectors were especially badly hit, and the path to recovery entails rationalisation, mergers and severe cost cutting. Some consumer preferences may have irreversibly changed, and companies have learnt lessons that will affect their processes in a long-lasting way, with material effects on logistics and the real estate market. The economic stimulus being rolled out by the EU will mostly focus on an array of "strategic" industries, such as connectivity and environment-friendly technologies.

As a result, recovery can be expected to be selective in nature, both across industries and within, with "winners" emerging and "losers" being forced to scale back operations or leave the market. Against this backdrop, emergency instruments aimed at freezing payments, easing capital constraints and providing additional credit cannot simply be dismantled, but rather have to be replaced by measures aimed at smoothing the transition towards a different economic environment. Examples of such measures, aimed at ensuring a safe landing place (if politically endorsed), are the following:

- provide additional flexibility in default recognition, enabling lenders to deal with companies that are on the path to recovery and require additional support, but risk being reported as defaulted whenever credit restructurings involve a 1% decrease in the net present value of the loan;
- as borrower PDs are expected to increase materially and a significant amount of moratoria go past the nine-month deadline required by EBA to benefit from a special regime, provide further guidance on the circumstances triggering a significant increase in credit risk under IFRS 9;
- invest in judicial procedures (in terms e.g. of additional staff, streamlined digital processes and smoother legal proceedings), enabling courts to deal with a materially higher volume of bankruptcies, real estate enforcements and other liquidation procedures. Reward Member States that are willing to invest on such innovations (and achieve tangible results) by easing the provisioning schedule dictated by the CRR prudential backstop, buying banks some breathing space before the benefits of faster judicial procedures materialise;
- promote the development of public asset management companies ("AMCs"), which buy impaired loans at a fair price and bet on economic recovery, to counterbalance private sector investors and help develop an active secondary market for distressed exposures. Review State-aid rules which pose a constraint on the governments' ability to use AMCs to facilitate a quick clean-up of bank balance-sheets and minimise taxpayer losses linked to public guarantees;
- contrast the sovereign-bank loop, which may be re-ignited by the increase in public debts and the material amount of State guarantees sitting in the bank balance sheets, by making deposit insurance fully integrated across EU countries while incentivising banks to diversify sovereign exposures across multiple issuers. Encourage cross-border bank mergers as a way to reduce reliance on "national champions" and consider the development of a truly pan-European AMC;
- as information on the effects of the Covid-19 crisis on individual borrowers becomes available, make sure that banks are incentivised to timely collect and process such information, by having them retain enough "skin in the game" when loans are postponed or benefit from public-sector guarantees.

1. FOREWORD

The Covid-19 pandemic is having disruptive effects on the economies of EU Member States. To support banks and their customers, a wide range of measures have been issued by supervisors, authorities and governments, including debt holidays, public loans and guarantees, interpretative communications and legislative changes addressing prudential and accounting rules[2].

Such measures are mostly exceptional in nature and keeping them in place indefinitely would hamper a timely recognition of the risks building up in the banking sector, while distorting competition and placing an excessive burden on public budgets. Nevertheless, as the pandemic rages on and vaccine rollout proves slower than expected, policy makers are aware that a hasty reversal may cause long-lasting damages and put economic recovery at risk. Additionally, the strong economic interdependencies across EU Member States mean that some degree of supranational coordination is needed on how Covid-related measures can be rolled-back, in order to avoid spill-over effects across national boundaries.

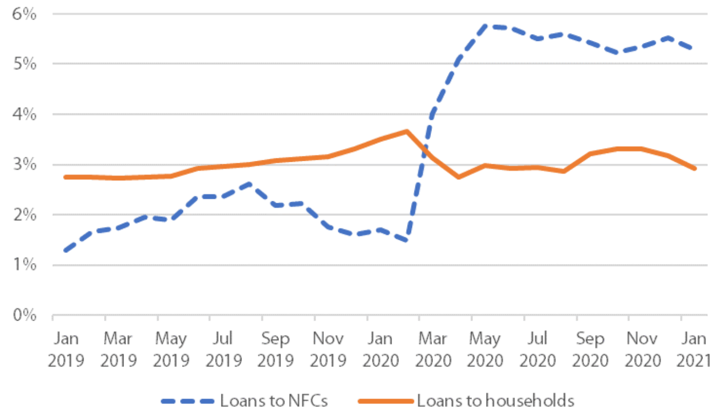
In this paper, after a brief look at the main effects of the pandemic on economic activity and bank lending (§2), we survey the main measures issued to support banks directly (through changes to their prudential and accounting regimes, §3.1) and indirectly (backing obligors through fiscal measures, additional liquidity and moratoria, §3.2). We conclude by discussing, in §4, how Covid-related measures could be unwound over the next months, assuming that Europe gradually overcomes the most acute phase of the current health emergency: In our view, such measures cannot be simply reversed, but need to be replaced by more structural interventions to steer the banking system across a period of unprecedented economic and social turmoil. As requested, §5 provides a few questions to Mr. Enria, chairperson of the Single Supervisory Mechanism, in view of its periodic hearing at the ECON Committee.

2. BANK LOANS AND THE REAL ECONOMY IN 2020

In 2020, real GDP is expected to shrink by 6.8% in the Euro Area ("EA") and by 6.4% in the EU. Seasonally-adjusted, quarter-on-quarter growth has been erratic, as Q3 witnessed a strong rebound compared to Q2 (+12.4% vs. -11.7% in the EA, +11.5% vs. to -11.4% in the EU) and Q4 stayed virtually flat. Against this backdrop, monthly data for year-on-year growth in bank loans signalled a limited drop for households between February and April, while non-financial companies ("NFCs") experienced a material increase in credit usage (see Figure 1).

[2] See e.g. (Economic Governance Support Unit 2020) for a survey.

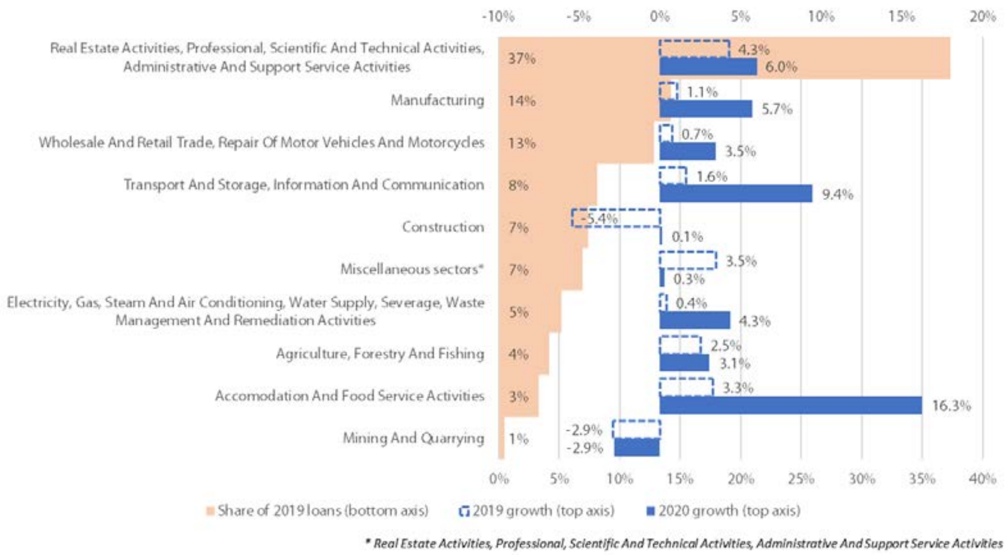
Figure 1 – Year-on-year growth for EA bank loans to non-financial companies ("NFC") and households



Source: ECB Statistical Data Warehouse

The path followed by bank loans to NFCs was roughly specular to that of real GDP, as lending growth went up in the second quarter, right when the real economy experienced an unprecedented drop. Most loans were used to shore up liquidity as production and sales ground to a halt. The "unhealthy" nature of this rise in credit supply is confirmed by the fact that strong positive changes in loan growth occurred for industries – like manufacturing, transport, accommodation and food service – which were badly hit by the pandemic (see Figure 2)[3].

Figure 2 – Annual growth for EA bank loans to NFCs in different industries



Source: ECB Statistical Data Warehouse

[3] Similar evidence, based on Anacredit data, can be found in (European Systemic Risk Board 2021). Another anomaly relates to the "rejection rate" for loan applications, as measured by the ECB's Bank Lending Survey, which fell – instead of increasing, as economic conditions would suggest – in the second quarter of 2020.

3. COVID-RELATED SUPPORT MEASURES FOR BANKS

The banks' willingness to lend, notwithstanding a severely disrupted economic environment, can be explained by a wave of support measures that were promptly issued by regulators and governments since the very first weeks of the pandemic. These included:

- *direct measures*, mostly focused on easing capital requirements and isolating regulatory capital from the adverse effects of the pandemic[4];
- *indirect measures* aimed at supporting bank borrowers.

Banks across the EU share a common rulebook and supervision follows a unified framework in the EA: accordingly, most direct measures took place at the supranational level. Conversely, indirect measures required fiscal provisions (e.g. tax cuts or public subsidies) or legal changes (e.g., debt holidays): hence, they were mostly introduced by individual Member States, with EU institutions providing emergency funding to governments and more flexibility on state-aid rules[5].

The remainder of this paragraph surveys these direct and indirect measures, highlighting how the latter show some signs of a "national divide" in the policy mix used by local governments.

3.1. Direct support measures

Since last March, the European Banking Authority (EBA) and the EA's Single Supervisory Mechanism (SSM) have increasingly recognised that the impact of Covid-19 on the real economy required extraordinary measures providing banks with adequate flexibility and protecting them from overly procyclical effects[6]. Their statements and guidelines have been backed up by the European Securities and Markets Authority (ESMA), the European Commission (EC) and other policy makers, and have led to a prompt and wide-ranging response by the European Parliament (EP) and the Council, through Regulation (EU) 2020/873 – also known as the "Quick fix" – which contains targeted amendments to Regulation (EU) 2013/575 (the Capital Requirements Regulation, "CRR").

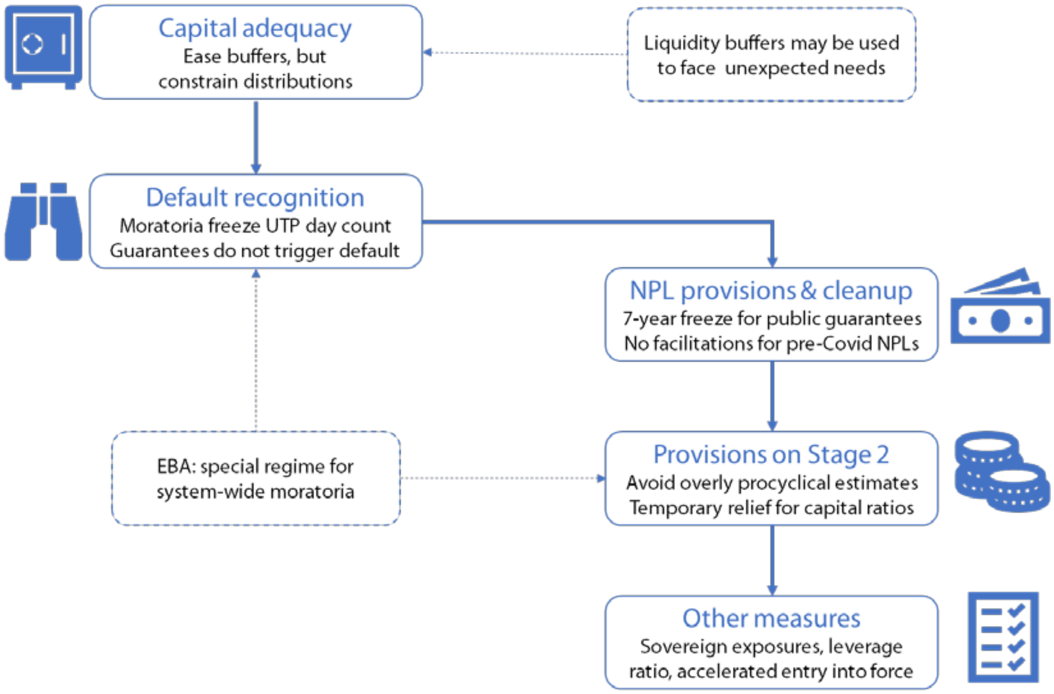
The remainder of this section provides a brief overview, along the lines illustrated in Figure 3. For the sake of brevity, we provide a high-level discussion of the main workstreams covered by European regulators and supervisors, without entering into a detailed survey of individual measures (see Economic Governance Support Unit 2020 for a comprehensive analysis).

[4] As this analysis centres on banking supervision, we will not be discussing in detail the interventions carried out by the ECB through its monetary policy toolkit, including the €1,850 billion pandemic emergency purchase programme (PEPP) and the decision to expand targeted long-term refinancing operations (TLTRO, whereby banks can obtain long-term funding at a negative rate in return for an increase in loan supply), while introducing more favourable/flexible parameters.

[5] In the medium term, the Recovery and Resilience Facility will also support public investments and economic recovery, but several intermediate steps are required before it can be fully deployed, and its benefits are felt by businesses and families.

[6] E.g. on March 3, 2020, the SSM Chair sent a letter to all significant institutions, urging them to deploy contingency plans and backup facilities, while protecting the employees' health and stepping up defences against cyber-risk (Enria 2020a); in the following days, the SSM also stated that on-site inspections, data requests and other supervisory measures could be postponed, to avoid posing an unnecessary burden onto banks (European Central Bank 2020a), and the EBA announced its decision to postpone the EU-wide stress test exercise to 2021, as well as the submission of supervisory reporting data, Pillar 3 documents and other data collection exercises (European Banking Authority 2020a).

Figure 3 – Main categories of direct support measures



Source: our elaboration

3.1.1. Capital requirements and constraints on dividends

Since March 2020, the ECB[7] allowed banks to disregard the additional capital buffers imposed by the Basel 3 accord ("capital conservation buffer", CCB, and "counter-cyclical buffer", CCyB), as well as the non-binding capital surcharge ("Pillar 2 Guidance", "P2G") that supervisors indicate to individual institutions as part of their annual supervisory review and evaluation process ("SREP"). Additionally, banks were allowed to use their liquidity coverage buffer (a pool of high-quality liquid assets that in normal times must exceed the cash outflows expected in the following 30 days under a moderately stressed scenario). Banks will be permitted to operate below the P2G until end 2022 (2021 for the liquidity buffer) without automatically triggering supervisory actions[8]. Finally, the amount of common equity Tier 1 capital ("CET1") that banks must use to meet the "Pillar 2 Requirement" ("P2R", a binding capital surcharge originating from each institution's annual SREP) was cut by roughly 45% as other capital instruments (additional Tier 1 and Tier 2) became eligible for P2R (as foreseen by a legislative measure that would have entered into force only in 2021).

The ECB (and the EBA) also recommended that banks do not pay dividends until January 2021, and refrain from other distributions and share buy-backs aimed at remunerating shareholders[9]. In December 2020 this absolute ban was replaced by a cap on dividends, which - until 30 September 2021 - are expected not to exceed 15% of cumulated 2019-20 profits and 20 basis points of CET1 ratio[10].

[7] (European Central Bank 2020a).

[8] (European Central Bank 2020d).

[9] (European Banking Authority 2020c; European Central Bank 2020c; 2020d).

[10] (European Central Bank 2020e).

Banks were also invited to exercise extreme moderation on variable remuneration, e.g. by deferring a larger part of it for a longer period and/or by paying out bonuses in equity.

As such recommendations to freeze dividends became increasingly controversial, the Quick fix mandated the EC to report to the EP, by end 2021, on whether competent authorities should be granted additional binding powers to impose restrictions on dividend distributions by banks in phases of extreme market volatility.

3.1.2. NPL recognition

The ECB also allowed increased flexibility in default recognition and NPL provisioning[11]. This included a temporary waiver on the recognition of "unlikely to pay" ("UTP") debtors for credit exposures assisted by pandemic-related public guarantees and moratoria (including when guarantees are called upon), provided that they remain viable in the long term. On April 28, 2020, the EC weighed in with an interpretative communication[12] highlighting the flexibility margins available for banks under the existing rules on NPL classification and provisioning. It advocated that rules on default and forbearance identification should not stand in the way of a widespread use of public guarantees and moratoria, and that debt holidays freeze the day count for past-due exposures. The EC communication also highlighted that, while the CRR requires the UTP status to be assessed without considering guarantees, making recourse to a guarantee (e.g. to face temporary difficulties) does not in itself represent a default trigger.

Bank supervisors also introduced special, temporary rules on the prudential and accounting treatment of Covid-related moratoria introduced since March 2020 (see below, §3.2.3). On April 2, 2020, the EBA released a set of guidelines, specifying that debt holidays based on national law or on broadly-applied, industry-wide private initiatives do not automatically trigger forbearance or distressed restructurings (accordingly, the loans do not have to be classified as defaulted). This special regime for moratoria was first gradually phased out by the EBA in late September; however, it was subsequently restored until March 2021 in response to the new lockdowns imposed in late 2020, but subject to two additional conditions: *i)* new moratoria may not last more than nine months in total (including any payment holidays granted during the first wave of the pandemic) and *ii)* banks must document their plans for assessing that those exposures do not become unlikely to pay.

3.1.3. NPL provisioning and clean-up

NPL provisioning was addressed in the Quick fix, which introduced limited amendments to the so-called "prudential backstop" (a rule in the CRR mandating banks to increase provisions[13] on NPLs up to 100%, depending on the number of years elapsed since default): the preferential treatment originally granted to exposures secured by export credit agencies was extended to loans guaranteed (or counter-guaranteed) by the public sector. Accordingly, no minimum coverage requirement applies for the first seven years after the default, although mandatory coverage jumps to 100% thereafter; the new regime is permanent in nature, although it may be repealed by a new regulation. It echoes a similar measure introduced by the ECB and regarding the so called "calendar provisioning", a discretionary form of prudential backstop adopted by the SSM.

[11] (European Central Bank 2020b).

[12] (European Commission 2020a).

[13] As accounting rules require that provisions reflect the expected recovery value of loans, additional capital requirements may be required instead of full provisioning.

The Quick fix failed to address the foreseeable effects of the pandemic on the workout of exposures that were already impaired in February 2020. Indeed, as social distancing measures delay court hearings and auctions, and a disrupted real economy makes it harder to find buyers for real estate collateral (as well as investors willing to pour cash in distressed companies in return for a debt restructuring), recoveries on NPLs experienced a slowdown that is expected to last for many more months. Nevertheless, no political consensus emerged on a possible recalibration (or temporary freeze) of the compulsory write-downs imposed by the prudential backstop. Against that backdrop, the ECB committed to "full flexibility" when reviewing banks' plans for NPL disposals, although it clarified that non-performing exposures accumulated prior to the Covid-19 outbreak would not be "the focus" of its supervisory mitigation measures. The deadline for banks to update their plans on NPL reduction was postponed by six months, to March 2021[14].

3.1.4. Provisions on performing exposures

Since 2017, European banks evaluate their credit portfolios on the basis of IFRS 9, an accounting standard that stresses the need to provision against future *expected* credit losses before loans become non-performing. As part of this approach, whenever an exposure experiences a "significant increase in credit risk" ("SICR") since origination, it gets moved to Stage 2 (an intermediate layer between NPLs and fully-performing loans). Consequently, provisions must be materially increased and, instead of only covering the statistically "expected credit losses" for the following 12 months ("ECLs"), must address *all future credit losses* until the loan's maturity ("lifetime ECLs", or "LECLs"). As Covid-19 is likely to increase the probability of default attached to a large number of performing exposures, a considerable rise in loan loss provisions may be triggered, weighing on the banks' profits and capital.

Bank supervisors have been aware of this risk and, since last March, have recommended that lenders avoid procyclical assumptions in the models used to quantify loan loss provisions. For example, the SSM clarified that LECL estimates should be based on long-term macroeconomic forecasts and take into account the relief measures granted by public authorities[15]. Similarly, the EBA emphasised[16] that a SICR can only be identified by looking at significant changes over the total expected life of the exposure, disregarding short-term noise (including the request of a moratorium); in any case, when estimating ECLs, the mitigation provided by collateral or public guarantees must be considered. In a similar vein, the ESMA has argued that Covid-related support programs deployed by governments should be considered in the assessment of a SICR whenever they reduce the lifetime default risk of an exposure. Further guidance was provided by the IFRS Foundation[17], which acknowledged that estimating ECLs may prove challenging during the pandemic and highlighted the importance of adjusting forecasting procedures to account for the current exceptional situation.

The ECB also released a guidance document addressing the collective assessment of SICR[18] and the use of macroeconomic forecasts, noting that a SICR may not affect all clients equally. Hence, banks may use a top-down approach to mitigate the risk of generalised shift to Stage 2; alternatively, they may recognise LECLs only on a portion of the financial assets for which a SICR is deemed to have occurred. The SSM also encouraged banks to use long-term macroeconomic forecasts and historical information that is representative for the long-term horizon and free of recency bias. Nevertheless, in a

[14] (European Central Bank 2020d).

[15] (Enria 2020b).

[16] (European Banking Authority 2020b).

[17] (IFRS Foundation 2020).

[18] (Enria 2020b).

communication of December 2020[19], the ECB urged banks to use "realistic parameters and assumptions which are appropriate for the current environment", avoiding exclusive reliance on through-the-cycle approaches or long-term averages.

Accounting rules were also discussed in the above-mentioned EC interpretative communication, which highlighted that the temporary inability of households or businesses to pay back their loans because of Covid-19 should not automatically trigger an increase in ECL-related provisions, and that banks should not mechanically apply their pre-existing ECL measurement rules. It also reiterated that a SICR should be assessed through a lifetime perspective, giving enough weight to scenarios based on long-term return to normal, and that moratoria should not be seen, in themselves, as a sign of increased credit risk. Finally, it noted that guarantees do not affect the default risk of the borrower.

In the Quick fix, the transitional arrangements introduced in 2017 to mitigate the potential negative impact of IFRS 9 on regulatory capital were enhanced to offset the foreseeable increase in ECLs due to Covid-19. The original relief measures were extended by two years, to 31 December 2024, allowing banks to add back to their CET1 capital any increase in ECL provisions recorded in 2020 and 2021 on performing loans.

3.1.5. Additional measures

The Quick fix also introduced a temporary prudential filter regarding *sovereign bonds*, to reduce the impact on own funds due to unrealised gains or losses recorded on securities booked at fair value. Under this provision, banks will be allowed to add back to their CET1 capital a share of the unrealised losses on sovereign bonds, ranging from 100% in 2020 to 40% in 2022. The filter will expire on 1 January 2023[20].

The same regulation also addresses the *leverage ratio*, a reporting requirement that is expected to become a binding threshold from June 2021. Namely, banks will be allowed to exclude central bank reserves from the computation of the ratio under exceptional circumstances, subject to the consent of competent authorities and for a maximum period of one year. A bank exercising this discretion will be required to calculate an adjusted leverage ratio to offset the impact of the exclusion; however, this will be done only once, when central bank reserves are first excluded, and the adjustment will remain constant until such reserves are factored in again[21].

Several implementation dates have been moved closer in time, accelerating the entry into force of some cuts in capital requirements that were introduced by the co-legislators in 2019. This includes a more favourable treatment of credit exposures secured by salaries and pensions (now weighted at 35%) and of loans issued to SMEs or infrastructure companies: both measures have now become effective since June 2020, one year earlier than expected; the exemption of certain software assets from capital deductions came into force in November 2020.

Although the Quick fix is mostly focused on credit risk, it also includes some provisions on market risk, with a view to prevent internal models from being overly conservative due to exceptional market circumstances. Supervisors are given new discretionary powers to relax the rules on additional capital

[19] (Enria 2020c).

[20] Further provisions on sovereign bonds include a preferential treatment of exposures denominated and funded in the currency of another Member State, to ease their impact on credit risk capital requirements (until end 2024) and under the large exposure regime (until end 2026).

[21] Another measure addresses the so-called "additional leverage ratio buffer" dictated by Article 92(1a) of the CRR for systemically important banks ("G-SIIs"), whose application has been postponed to 1 January 2023, consistent with the decision taken by the Basel Committee in March 2020 (Basel Committee on Banking Supervision 2020).

cushions required for banks whose models fail periodic back-testing; over-shootings taking place in 2020-2021 will be excluded from back-testing results, unless they are due to intrinsic weaknesses in internal models.

3.2. Measures to support bank borrowers: the national divide

National measures supporting bank obligors have been threefold (see Figure 4):

- first, public money has been transferred to ailing companies and families, through subsidies and tax exemptions that increased public deficits and debt ("immediate fiscal measures");
- second, additional liquidity has been mobilised to keep companies in business through state-sponsored loans, tax deferrals and public guarantees[22]; such interventions did not immediately increase the government's deficit, but may have a substantial impact on the public sector's accounts in the future: loans (including tax deferrals) may not be orderly paid back, while guarantees may cause substantial costs, especially if they have weakened banks' incentives to assess the creditworthiness of the borrower. Accordingly, this group of measures can be seen as "contingent fiscal measures" that may trigger significant costs for the public sector in the future;
- as mentioned in §3.1, moratoria[23] have been introduced to "freeze" the banks' measurement of the borrowers' credit risk and prevent a wave of defaults that would have been detrimental to both lenders and customers. As they do not entail costs for governments (neither immediate nor potential), they can be seen as "fiscally-neutral measures". Debt holidays may prove advantageous if the economic slowdown caused by Covid-19 is temporary and can be quickly overcome by borrowers. However, if the latter face a more prolonged/structural crisis, moratoria could prevent banks from timely detecting default risk, blurring early-warning signals and making it harder to orderly recover outstanding loans.

[22] Public guarantees have been found to promote the growth of SMEs while reducing their bankruptcy rates in the EU in 2002-2016 (Brault and Signore 2020). As reported by (Falagiarda, Prapiestis, and Rancoita 2020), public guarantee schemes generally apply to new lending, typically to medium and long-term loans with an average maturity of five years. The maximum amount per borrower is typically 25% of the beneficiary's turnover in 2019. The guaranteed share ranges between 70% and 90% of the loan principal, although 100% guarantee schemes have also been used, especially for SMEs and the self-employed.

[23] Non-legislative moratoria were also introduced by private-sector institutions (e.g. banking associations): like legislative moratoria, they are not targeted to a specific borrower, but provide a uniform treatment for a wide group of potential applicants.

Figure 4 – Main measures enacted by EU Member States and indirectly supporting banks

a) Immediate fiscal measures, of which	402
Direct grants	*327*
Tax relief	*75*
b) Contingent fiscal measures, of which	2,034
Public guarantees	*1,580*
Public loans	*57*
Tax deferrals	*170*
Public support for credit insurance	*227*
c) Fiscally-neutral measures (Moratoria)	838
Total (EUR billion)	3,274

Source: (European Systemic Risk Board 2021)

From the banking system's point of view, immediate fiscal measures may actually improve the debtors' financial balance and structurally prevent credit risk from getting out of control. The effect of public commitments is less clear: on the one hand, tax deferrals and state-sponsored loans may rank senior to bank debts if companies are liquidated, exacerbating the risk of future credit losses; on the other hand, State guarantees may reduce the repayment risk, but also reinforce the sovereign-bank loop as lenders turn to the government to get their money back. Finally, moratoria may just be a way of kicking the can down the road while obligors' financial balance deteriorates further.

The three above-mentioned levers have been used to a different extent by individual Member States, leading to potential imbalances that deserve further scrutiny: they are briefly surveyed in the remainder of this section. It should be clarified, however, that international comparisons are hard to make and intrinsically inaccurate, as country-specific measures are sometimes difficult to reconcile to common categories, and national data often refers to different reporting dates (leading to significant biases, due to the quickly-evolving nature of the pandemic and the ensuing policy response)[24].

3.2.1. Immediate fiscal measures

As suggested by (Haroutunian, Osterloh, and Slawińska 2021), the Member States' immediate fiscal response to Covid-19 can be captured through the change in the cyclically-adjusted primary balance ("CAPB") of the general government, expressed as a percentage of potential GDP[25]. By looking at the difference between 2019 and 2020, one can see how bold the fiscal stance has been in meeting the economic emergency. If, e.g. the indicator equals +1% in 2019 (indicating a surplus) and -2% in 2020 (meaning that the government is using deficit to fund its Coronavirus response), the difference gives

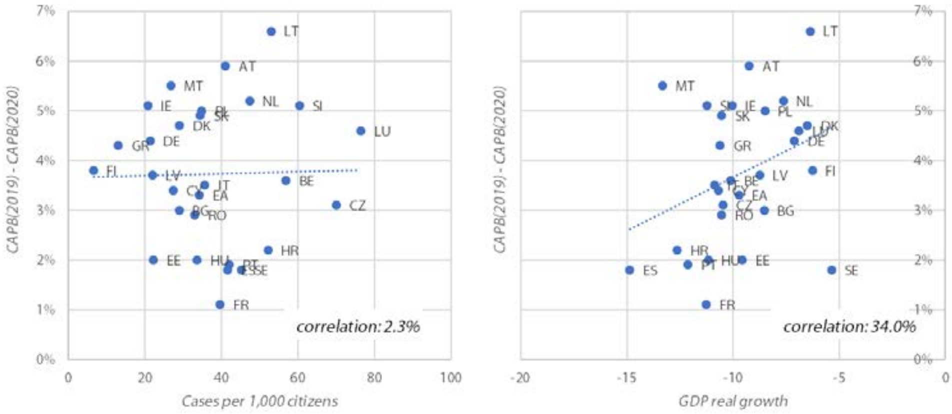
[24] To improve the timeliness and comparability of data regarding Covid-related measures, the EBA has issued a set of guidelines (European Banking Authority 2020d) introducing disclosure and reporting requirements on the usage of moratoria and the credit quality of the exposures involved, as well as on new loans subject to public guarantees. Further disclosure requirements were introduced by (European Banking Authority 2020e; 2020f).

[25] As explained e.g. by (Fedelino, Horton, and Ivanova 2009), fiscal variables move in response to changes in the macroeconomic environment. When economic activity slows down, revenues are negatively affected, and spending may increase automatically (e.g. due to unemployment benefits). Looking solely at changes in the fiscal balance can thus be misleading. This is why cyclical adjustment is applied to the general government primary balance (i.e., the overall fiscal balance excluding net interest payments on public debt), to filter out the impact of cyclical movements on fiscal variables and assess the "underlying" fiscal stance. Potential GDP represents the market value of goods and services assuming that the national economy achieves full employment and aggregate demand does not exceed aggregate supply.

3%, suggesting that the Treasury is willing to use immediate fiscal measures like tax cuts or additional public spending[26].

One may expect this indicator to be higher in countries that were more severely hit by the pandemic, in terms of either public health (number of Covid-19 cases) or economic damages (drop in real GDP). Figure 5 shows that this is not the case. Indeed, the correlation between a country's change in CAPB and the number of cases in 2020 per 1,000 inhabitants is virtually zero; as for GDP, the sign of the relationship is clearly counterintuitive, indicating that Member States where the economic backlash was stronger appear *less* inclined, on average, to use immediate fiscal measures (or, rather, were unable to do so due to their limited fiscal leeway).

Figure 5 – Change in the general government's cyclically-adjusted primary balance (over potential GDP) versus Covid-19 cases (left panel) and GDP real growth expected for 2020 (right panel).

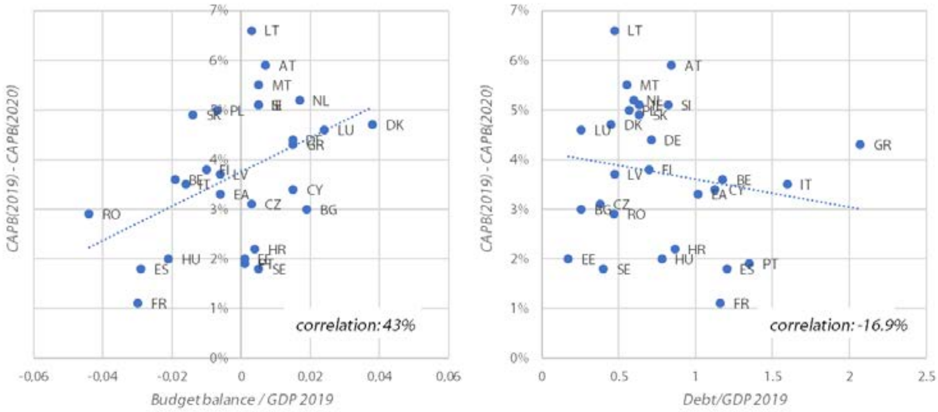


Source: (European Commission 2020b) except Covid-19 cases (European Centre for Disease Prevention and Control).

Indeed, as shown by (Haroutunian, Osterloh, and Slawińska 2021), a country's willingness to use immediate fiscal measures seems to be driven more by its public finance constraints. Figure 6 shows how the change in CAPB correlates with a Member State's pre-Covid general government's budget balance and, to a lower extent, with its sovereign debt.

[26] An alternative estimate of the immediate fiscal measures put forward by individual Member States is the "direct grants and tax relief" reported in (European Systemic Risk Board 2021). However, it apparently also includes tax deferrals which, under our taxonomy, represent contingent fiscal measures. Based on the charts reported in Annex B of the ESRB's publication, direct grants and tax relief (expressed as a percentage of 2019 GDP) show a positive correlation with our estimate of immediate fiscal measures (CAPB over potential GDP); however, the ESRB did not release the actual numerical values used in the charts, possibly due to confidentiality and data quality concerns.

Figure 6 – Change in the general government's cyclically-adjusted primary balance (over potential GDP) versus 2019 budget balance (left panel) and the 2019 Debt/GDP ratio.



Source: (European Commission 2020b).

3.2.2. Contingent fiscal measures

Data on measures implying contingent fiscal costs are hard to collect and even harder to compare. While some consultancy/legal firms and the European Systemic Risk Board have created repositories where national measures are recorded and inventoried, the actual amounts involved may be hard to monitor: one must frequently rely on mere expense forecasts/ceilings announced by Member States as individual measures were released; actual take-ups, when available, may significantly differ from *ex ante* estimates, and either be lower (because the actual beneficiaries are only a small portion of the potential ones) or higher (as some programs may get refinanced over time).

Although data may suffer from such potential weaknesses, Figure 7 shows an estimate of contingent fiscal measures provided by Bruegel, a Brussels-based think-tank, for a sample of EU-countries. This includes two main categories: deferrals, (i.e., postponements of certain payments, like taxes and social security, to be paid at a later date) and other liquidity provisions and guarantees (such as export guarantees, liquidity assistance, credit lines through national development banks); the two categories must be measured separately, as the values for liquidity provisions and guarantees refer to the total volume of private sector loans/activities covered, not to the amounts put aside by governments to account for the expected costs of the guarantees. The figure also reports each country's "immediate fiscal impulse" (Bruegel's estimate of the immediate fiscal measures discussed in §3.2.1): this includes additional government spending (such as medical resources, keeping people employed, subsidising SMEs, public investment) and foregone revenues (such as the cancellation of certain taxes and social security contributions). All values are expressed as a share of 2019 GDP.

Figure 7 - Discretionary 2020 fiscal measures adopted in response to coronavirus (% of GDP)

		Deferrals	Other liquidity /guarantee	Immediate fiscal impulse	Last update
DE	Germany	7,30%	24,30%	8,30%	04/08/2020
DK	Denmark	7,20%	4,10%	5,50%	01/07/2020
FR	France	8,70%	14,20%	5,10%	05/11/2020
ES	Spain	0,40%	12,20%	4,30%	18/11/2020
NL	Netherlands	7,90%	3,40%	3,70%	27/05/2020
IT	Italy	13,20%	32,10%	3,40%	22/06/2020
GR	Greece	1,20%	2,10%	3,10%	05/06/2020
PT	Portugal	11,10%	5,50%	2,50%	04/05/2020
BE	Belgium	4,80%	21,90%	1,40%	22/10/2020
HU	Hungary	8,30%	0,00%	0,40%	25/03/2020
	Mean	*7,01%*	*11,98%*	*3,77%*	

Source: (Anderson et al. 2020)

Based on the data above, we compute a score that captures a Member State's propensity to use contingent fiscal measures rather than immediate ones. Details are provided in Box 1.

Box 1: Computation of a score indicating a Member State's propensity to use contingent fiscal measures

The score used in Figure 8, indicating a Member State's propensity to use contingent fiscal measures, is built as follows. First, we standardise each country's value by the sample mean, and average the results obtained for deferrals and liquidity provisions/guarantees (see column (d) in Table 2). We then divide the result by the similarly standardised value relative to immediate fiscal impulse and take the natural log to get a measure ranging from minus to plus infinity. High (low) values of the score indicate that a Member State is comparatively more inclined to use contingent fiscal measures rather than immediate ones.

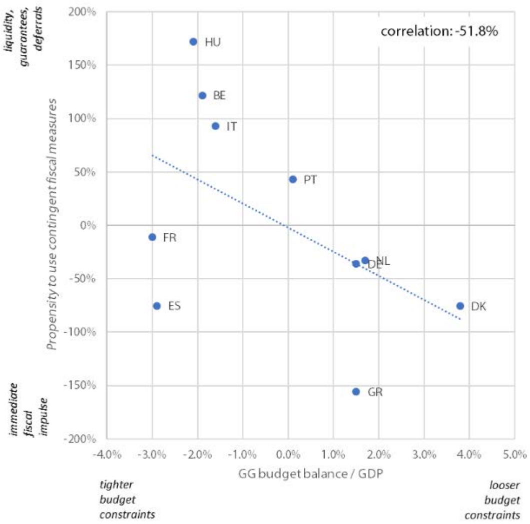
Table 1 – Computation of a score measuring the propensity to use contingent fiscal measures

	Ratios of individual values to the sample mean			Overall contingent measures	Propensity to contingent measures
	Deferral	Other liquidity /guarantee	Immediate fiscal impulse		
	(a)	(b)	(c)	(d)=((a)+(b))/2	ln((d)/(c))
Belgium	68%	183%	37%	126%	122%
Denmark	103%	34%	146%	68%	-76%
France	124%	119%	135%	121%	-11%
Germany	104%	203%	220%	153%	-36%
Greece	17%	18%	82%	17%	-156%
Hungary	118%	0%	11%	59%	172%
Italy	188%	268%	90%	228%	93%
Netherlands	113%	28%	98%	71%	-33%
Portugal	158%	46%	66%	102%	43%
Spain	6%	102%	114%	54%	-75%

Figure 8 shows that our propensity score[27] is affected by the general government's budget balance: countries with tighter budget constraints are more likely to issue measures that defer fiscal costs to the future.

[27] A similar propensity score can also be computed using the data reported, as charts, in Annex B of (European Systemic Risk Board 2021). This can be done by taking the natural log of the ratio between direct fiscal measures (direct grants and tax relief, which however also includes tax deferrals) and contingent ones (public loans and guarantees), both divided by the cross-country means. The propensity score based on ESRB data shows a significant positive correlation with the one in Figure 8 and a negative correlation with the general government budget balance (meaning that Member States running higher public deficits tend to focus use contingent fiscal measures to a larger extent); however, it cannot be computed for Belgium since, according to ESRB data, the latter appears not to have issued any direct grants, tax relief or tax deferrals.

Figure 8 – Propensity to use contingent fiscal measures and 2019 general government budget balance



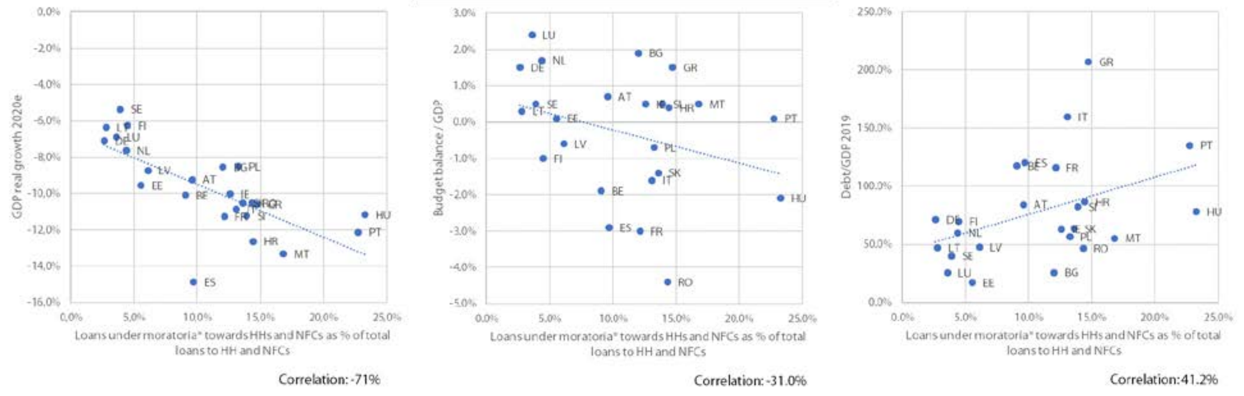
Source: our computations (Box 1) and (Anderson et al. 2020).

3.2.3. Fiscally-neutral measures: moratoria and other forbearance measures

Based a the survey performed by the European Banking Authority[28], the use of moratoria and other forbearance measures has been widespread, involving roughly 10% of all loans issued to households ("HH") and non-financial companies ("NFCs"), although with significant variations across countries[29].

Figure 9 – based on an estimate covering all moratoria and Covid-related forbearance measures[30] – suggests that their usage be strongly linked to the severity of the economic downturn caused by the pandemic (the correlation with the expected drop in GDP exceeds 70%). To an extent, this kind of fiscally-neutral tool also appears to have been more widely used by countries where public deficit and debt are higher (that is, by countries with less fiscal space to act).

Figure 9 - Use of moratoria by individual Member States and its possible determinants



*includes an estimate of non-EBA compliant moratoria and other forbearance measures - Source: (European Commission 2020b; European Banking Authority 2020g)

[28] (European Banking Authority 2020g), data as of June 30, 2020.

[29] A summary of the main characteristics of the measures issued in EU Member States can be found in (European Banking Authority 2021b). (European Banking Authority 2021a) provides a detailed database on individual measures.

[30] The data on moratoria from Figure 2 in (European Banking Authority 2020g) has been supplemented with an estimate of the incidence of other forbearance measures based on Figure 4 in the same document. The EBA survey is based on a sample of 132 European banks (100 of which were reported at the highest consolidation level, meaning that they also cover moratoria and loans by non-EU subsidiaries).

Based on the evidence reported above, the actions undertaken by Member States to support bank borrowers (hence, indirectly, banks) seem to have followed different patterns. Where constraints posed by public-sector deficits and sovereign debt were tighter, the governments' response to Covid-19 was more focused on contingent State support and fiscally-neutral moratoria. As discussed above, such measures are intrinsically fragile, since they might lead to greater fiscal unbalances (as deferred taxes may not be paid and public guarantees must be honoured) and to a significant rise in bank loan defaults once moratoria are lifted.

4. WHEN AND HOW TO UNWIND COVID-RELATED EMERGENCY MEASURES

As emergency measures aimed at supporting banks and borrowers were put in place one year ago, policy makers were still hoping for a short-lived – if deep – economic crisis, followed by a "back to normal" scenario. One year later, the pandemic is permanently changing the European economic texture: some sectors (e.g. tourism, transportation and entertainment) were especially badly hit and the path to economic recovery entails rationalisation, mergers and severe cost cutting. Some consumer preferences may have irreversibly changed, and companies have learnt lessons (on smart working and the management of supply chains) that are going to affect their processes in a long-lasting way, with material effects on logistics and the real estate market. The unprecedented economic stimulus being rolled out by the European Union and national governments will mostly focus on an array of "strategic" industries (infrastructures, connectivity, environment-friendly technologies…) that should act as an engine for more widespread recovery.

As a result, recovery can be expected to be selective in nature, both across and within industries, with "winners" emerging and "losers" being forced to scale back operations or leave the market. Against this backdrop, emergency instruments aimed at freezing payments, easing capital constraints and providing additional credit cannot simply be dismantled, but rather have to be replaced by measures aimed at smoothing the transition towards a different economic environment. In the remainder of this paragraph, we focus on provisions related to bank regulation and supervision; still, a similar approach should be adopted on a wider scale, including for fiscal policies and strategic investments supported by the Recovery and Resilience Fund[31].

Regarding non-performing loans, there is no doubt that – once moratoria are lifted – the financial imbalances experienced by a material portion of bank obligors will become apparent, triggering a significant increase in impaired exposures. This does not mean, of course, that debt holidays should be extended indefinitely, as this might delay default recognition to the benefit of "zombie" companies that are no longer viable[32]. However, banks must be helped to manage an adverse, high credit risk scenario; to that aim, policy makers should consider two complementary avenues:

- on the one hand, additional flexibility in default recognition should be allowed, enabling lenders to deal with companies that are on the path to recovery but require additional support. This is the

[31] As argued by (European Commission 2021), as emergency fiscal measures, which in 2020 cushioned the contraction in GDP by around 4.5 percentage points, are expected to gradually fade out in 2021 2.6%) and 2022 (0.6%). To ensure a smooth transition, "support measures should pivot from emergency relief to more targeted measures that promote a resilient and sustainable recovery".

[32] With wide-ranging public guarantees and moratoria being deployed since the very first weeks of the pandemic, the risks of "zombie lending" have been highlighted by several authors (see e.g. Acharya et al. 2020). However, (Laeven, Schepens, and Schnabel 2020) have argued that the different nature of the Covid-19 crisis (compared to previous economic downturns) means that many firms requesting emergency funding are in fact viable firms experiencing temporary liquidity squeezes because of social distancing measures negatively affecting production and demand. Additionally, the usual crowding-out effect of zombie lending is less likely in an environment where extraordinary liquidity support is almost universally available.

case, e.g., of rules on distressed restructurings: according to the current supervisory framework, a 1% decrease in the net present value of the restructured loan (compared to its theoretical pre-restructuring value) requires banks to consider the borrower as defaulted. As a result, any meaningful concession by the bank (in terms, e.g., of reduced interest payments) is likely to cause the obligor to be reported as insolvent to inter-bank credit registries (triggering a system-wide dry-up in credit availability)[33];

- on the other hand, considerable investments in judicial procedures should be deployed (in terms e.g. of additional staff, streamlined digital processes and smoother legal proceedings), enabling courts to deal with a materially higher volume of bankruptcies, real estate enforcements and other liquidation procedures. Member States willing to invest on such innovations (e.g. by using funding provided under the Recovery and Resilience Facility) should be rewarded – subject to periodic verifications of the results obtained – including by easing the provisioning schedule dictated by the prudential backstop; this would buy banks some breathing space before the benefits of faster judicial procedures materialise. Furthermore, one should not repeat the mistakes of the recent past, when private-sector investors were used as the main channel to clean-up bank balance sheets (triggering a sharp drop in the "fair" value of NPL, as market prices embedded the quest for double-digit returns): instead, public asset management companies ("AMCs", buying loans at a fair price and betting on economic recovery) should be promoted, to serve as a counterweight to market forces and help develop an active secondary market for distressed exposures.

AMCs may also prove useful in dealing with the consequences of the significant amount of public-sector guarantees issued by some Member States. If such guarantees are triggered, governments will become creditors of the original obligors (possibly on a concurrent basis with banks, if guarantees only cover a portion of the secured loan); the ensuing workout process may take time, effort and specialised skills. Its results may prove materially better if it is managed by a specialised entity, which can coordinate recovery efforts involving multiple lenders (e.g., regarding the sale of real estate collateral or the design of extra-judiciary settlement agreements). There is however a risk that current State-aid rules pose a constraint on the governments' ability to use AMCs to facilitate a quick clean-up of bank balance-sheets and minimise taxpayer losses linked to public guarantees. Indeed, under the current regulatory framework, asset transfers to a public AMC may have to occur at an unduly low price to avoid the risk of "burden sharing" measures that would cause disruption among creditors and stigma for the banks involved[34].

State guarantees[35] assisting performing loans may also reinforce the sovereign-bank loop, as any deterioration in the quality (e.g., in the probability of default) of the guaranteed exposures would

[33] Additional flexibility could be provided, e.g., by allowing banks to use the "post-Covid" value of the loan (rather than its theoretical contractual value) as a benchmark to see if the restructuring is going to trigger a 1% drop in its net present value. Providing additional flexibility on distressed restructurings would not translate into a loss of transparency for bank balance sheets: in fact, restructured loans towards borrowers in financial difficulty, even if they were not considered as defaulted, would still have to be reported separately (as "performing forborne exposures") under the EBA's guidelines (European Banking Authority 2018).

[34] According to the EC Communication 2009/C 72/01 ("the impaired assets communication"), any transfer of assets that takes place above market prices is a State aid. However, a transfer price reflecting the real economic value ("REV") of the assets (as certified by an independent expert) may make the aid acceptable as it shows that public support has been kept to a minimum; still, an adequate remuneration for the State must be ensured (e.g., by setting the sale price below the REV), According to EC Communication 2013/C 216/01 ("the banking communication"), State aid must be kept to a minimum also through "burden sharing" by private-sector investors, meaning that hybrid capital holders and subordinated debt holders must contribute to the reduction of the capital shortfall to the maximum extent, unless such a measure would "endanger financial stability or lead to disproportionate results".

[35] As State guarantees approach their final maturity in the coming years, there might be a risk of a "cliff effect" as banks prefer to foreclose on secured loans before public support expires (Gobbi, Palazzo, and Segura 2020). This calls for additional interventions aimed at ensuring a smooth unwind of existing guarantees (as well as for a gradual reduction of new State guarantees available in the next months).

trigger expectations of higher costs for the government budget. As noted above, the Quick fix shields the banks' regulatory capital from unrealised losses on Treasury bonds through a temporary mechanism that will be gradually phased out by 2023; however, such measures may not be enough to reassure investors if credit spreads on some countries' sovereign exposures were to experience an increase like ten years ago. This kind of vulnerabilities is exacerbated by the national divide affecting the indirect support measures discussed in §3.2; they call for additional measures aimed at making deposit insurance fully integrated across EU countries, while incentivising banks to diversify sovereign exposures across multiple issuers. Cross-border bank mergers should be actively considered as a way of diversifying risk and reducing reliance on "national champions". The development of a truly pan-European AMC would also contribute to easing the sovereign-bank loop, while minimising the risk that AMCs can only be used by less financially-constrained countries, exacerbating differences across Member States. As noted by (Boot et al. 2021), such a policy option may prove less feasible due to operational complexity and fears of cross-country "mutualisation" of losses, but would be more credible and efficient than a system of national AMCs [36].

By putting in place the above-mentioned measures, one would provide the banking system with a safer landing ground, reducing the risk associated with unwinding the emergency provisions put in place in the first 12 months of the pandemic. In the meantime, as more information becomes available on the effects of the Covid-19 crisis on individual borrowers, banks should be incentivised to timely collect and process such information, by making sure that they retain enough "skin in the game" when loans are postponed or benefit from public-sector guarantees. Accordingly, the portion of new loans that may be covered by such guarantees should be gradually reduced, whereas conditions should be imposed on firms allowed to benefit from additional moratoria (e.g. by requesting that sales are recovering from the drop experienced during 2020).

Finally, as the health crisis is likely to exert long-lasting effects on balance sheets, IFRS 9 could be fine-tuned to address some uncertainties on how bank financial statements must be drafted. As borrower PDs are expected to increase materially in the coming months, the circumstances triggering a SICR should be further clarified, providing additional, unambiguous guidance. Indeed, the ECB's requests that banks assess SICR in light of long-term historical information "that is free of recency bias", while also using parameters and assumptions that are appropriate for the current environment, may give rise to inconsistent interpretations among banks overseen by different joint supervisory teams. The effect of moratoria on Stage 2 provisions is another sensitive area: supervisors and accountants indicate that forborne exposures are "generally regarded" as having experienced a significant increase in credit risk and therefore call for additional provisions[37]. On the other hand, the EC interpretative communication mentioned in §3.1.4 states that loans which performed well prior to the Covid-19 crisis and are subject to a temporary private or statutory moratorium do not automatically result in higher expected provisions under IFRS 9. Although the two perspectives are not irreconcilable, they seem to point towards different approaches to loans benefiting from a debt holiday. Additional guidance on this

[36] A pan-European AMC "might be managed more efficiently and objectively than national vehicles". Furthermore, "it might also incentivize the creation of a market for distressed assets, and ultimately help the development of the Capital Markets Union. In doing so, it could have a favourable structural impact on the banking system in Europe".

[37] (Basel Committee on Banking Supervision 2015) emphasises that particular consideration should be given to "expectation of forbearance or restructuring due to financial difficulties" when assessing a significant increase in credit risk; similarly, (European Banking Authority 2017) stipulates that credit institutions assessing a SICR should consider the expectation of modifications in the exposure due to financial difficulties, "including those qualifying as forbearance". Accordingly, the so-called Global Public Policy Committee, formed by representatives of the main "international accounting networks" (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC) indicates that financial instruments which have been granted forbearance are "generally regarded" as having significantly increased in credit risk and may be impaired.

point may prove highly beneficial as an increasing volume of moratoria go past the nine-month limit indicated by the EBA and lose access to the special regime designed by its guidelines.

5. QUESTIONS TO MR. ENRIA

The support deployed by Member States to face the Coronavirus crisis has been heterogeneous in nature, with budget-constrained governments less willing to provide permanent relief (subsidies and tax cuts entailing an immediate fiscal cost) and more inclined towards temporary interventions (like moratoria) and measures creating contingent liabilities for public budgets (State guarantees and tax deferrals). Against this backdrop, a one-size-fits-all approach by the ECB's banking supervision may trigger asymmetric consequences across Europe. Would you agree to such concerns and, if so, how would you address them?

As moratoria are gradually rolled-back, one may wonder whether banks could be allowed to use some degree of additional flexibility in default recognition when dealing with obligors that are on the path to recovery. A relevant example are forborne exposures, where – according to the current supervisory framework – a 1% decrease in the net present value of the restructured loan (compared to its theoretical pre-restructuring value) requires banks to consider the borrower as defaulted. As a result, any meaningful concession by the bank (in terms, e.g., of reduced interest payments) is likely to cause the obligor to be reported as insolvent to inter-bank credit registries, triggering a system-wide dry-up in credit availability. However, the actual present value of many credit exposures has already dropped because of the exogenous shock caused by the pandemic, and a restructuring may, in fact, trigger an increase in the value of expected cash flows: would you accept that such a perspective be somehow factored in, when assessing whether forborne exposures must be considered as non-performing?

Public sector guarantees have been extensively used to ease credit supply to non-financial companies, especially by some Member States. Would you expect this phenomenon to increase the EA banks' vulnerabilities to the sovereign-bank loop? What measures would you consider in response to such a risk, including e.g. the creation of a pan-European AMC, incentives to cross-border bank mergers and cross-country diversification of the banks' sovereign bond portfolio, stronger mutualisation of deposit insurance?

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Bank loans increased considerably in 2020, due to an unprecedented wave of extraordinary measures aimed at supporting bank borrowers. Where constraints posed by public-sector deficits were tighter, the response was more focused on contingent/fiscally-neutral measures (e.g. public guarantees and moratoria), which might lead to greater unbalances in the future. Post-Covid recovery can be expected to be selective in nature, both across industries and within. Accordingly, emergency measures cannot simply be dismantled, but rather must be replaced by interventions aimed at smoothing the transition towards a different economic environment.

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