

SURROUNDED BY ZOMBIES? LOOKING BEYOND THE VACCINE

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Changing more than a name



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- Emergency measures: swift and big – care about costs and proper targeting later
- Fiscal policy: furlough, Kurzarbeit, direct support payments, tax payment holidays, loan guarantees, direct lending
- Monetary policy: flood markets with liquidity, market maker of first resort, direct firm support
- Regulatory policies: capital and loan provisioning relief, delay in Basel III implementation, delay in stress tests, but also pay-out restrictions
- Result: delay in corporate and household insolvencies, avoid hysteresis, limited rise in unemployment (in Europe) – it is all about social and economic survival
- BUT: are we preventing the functioning of market forces, Schumpeterian creative destruction and the necessary resource allocation?

2021 ONWARDS

- Many corporates will be overleveraged; some will be no longer viable
 - How to deal with a wave of corporate insolvencies? Restructuring vs. liquidation
 - Bank-led restructuring process?
- Many banks will face loan losses
 - But might have to be forced to recognize them (incentives for evergreening?)
 - How to deal with these non-performing assets? Market in NPAs,AMCs?
 - How to deal with failing banks?
- Many governments will face high deficits and debt burdens?
 - How to deal with this?
 - Monetary policy (anyone mentioned fiscal dominance? 😊)
 - Fiscal union (Hamiltonian glimpse)

READY FOR ANOTHER PERFECT STORM?

- From low-for-long to lower-for-longer
- Perfect setting for more zombie lending and kicking the can down the road
- BUT: how to pull the plug? Need for an exit strategy
- Remove fiscal support for corporations? Implications for banks
- Force banks to recognize losses, reverse capital relief etc.? Implications for corporate borrowers
- Need for coordinated approach across different policy areas and authorities

IS THIS TIME DIFFERENT?

- Banking crisis 2021/22?
- Different nature than previous crises
 - “Not” overlending, but overleveraging
 - We know it might be coming!
 - We are better prepared: bank resolution frameworks
 - BUT: incomplete banking union
- Many different dimensions to be addressed at the same time and in a coordinated way:
 - Corporate insolvency waves
 - Non-performing assets on banks’ balance sheets – can AMC really help in case of corporate loans
 - Failing banks (can BRRD really be used in systemic crisis?)
- Broader question: how to allocate the losses of the crisis?

LEARNING FROM PAST ERRORS

- Crises are opportunities!
- One of these has been used: European recovery fund
- Vision of a European banking system replacing national banking systems, following (cross-border) consolidation and restructuring
- Development of European capital market
- Regulators and technocrats are ready – will politicians follow?
- Now is the time for preparation!

THANK YOU

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