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Get Involved Discussions:
5th ECB Simulation Conference

December,2021

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Introduction

Get Discussions is a report that aims to promote the views and perspectives of the participants of the 5th Simulation Conference of the European Central Bank for university students organized by Get Involved. Get Involved is a youth-led, non-profit civil firm based in Athens, Greece, with its main purpose being the promotion of economic literacy. Its initiatives cover both the organization of various scientific events -with its main initiative being the first and only, annual, Simulation Conference of the European Central Bank for university students (also mentioned as "the Simulation" or "the Conference")- and the conducting of multiple reports, so as to offer a holistic approach on the contemporary economic issues. After participating in the ECB Listens initiative in 2020, which was organized by the European Central Bank and took into consideration the views and proposals of all its stakeholders across the euro area to review its strategy, Get Involved decided to continue promoting the views and ideas of its participants.

The Simulation Conference of the European Central Bank is the first pan-European initiative that aims to educate the youth on the most contemporary economic issues from the viewpoint of the ECB. The participants are Greek students of all academic levels -BSc, MSc, and Ph.D.- with a variety of scientific backgrounds, mainly from economics and law. In the 5th Conference, there were 104 participants and their age varied from 18 to 39. This report consists of the views, ideas, and knowledge of the participants[1].

The conclusions of this report are the result of a two-steps process, which started on the 1st of December and ended on the 13th of the same month. First, the participants had to submit their thesis on the examined topics, with at most 500 words, before attending the Simulation. After participating for four days at multiple keynote speeches and actively engaging in a structured debate on the same topics, the participants examined these topics at a round table discussion. The first step of the process began on the 1st of December and ended on the 9th of the same month, while the second step occurred on the 14th of December. The report aims to evaluate how the participants' perspectives altered, after engaging in the workings of the conference.

The key topics of the 5th Simulation Conference of the ECB were the correlation of monetary and fiscal policies during and after the pandemic, the active engagement of the ECB with climate change and the potential launch of a European Central Bank Digital Currency. These topics were summarized into four questions and two sub-questions. The participants were asked to answer the following four questions:

1.a. Do you agree with the active engagement with ESG (Environmental, Social and Governance) issues by the European Central Bank? Which of these issues should be prioritized?

1.b. Would the financial institutions benefit from the development of a public database in which the significant banking institutions will disclose their data related to ESG, in a standardized format, following a similar approach as the financial information disclosures?

2. Will the development of a Central Bank Digital Currency (Digital Euro) impact your consumption behavior and, if yes, how?

[1] It should be noted that the views and ideas of the scientific team of Get Involved are not expressed in this report.

3.a. Do you consider that the European Central Bank acted swiftly in implementing programs and policies for tackling the adverse economic developments of the SARS-Cov-2 pandemic? Do you rate these policies as efficient?

3.b. Do you consider the rise in inflation that is recorded during 2021, a short or long-term phenomenon? How much did the Fiscal and Monetary Policies affect this rise?

4. Since the outbreak of the Global Financial Crisis, for a second time, the level of the Non-Performing Loans has increased significantly. The reasons for this rise are different from the first wave, as it is mainly driven by external factors of the financial system. Do you think that the policies that were developed for the first wave of Non-Performing Loans will be able to tackle the new wave?

The difference between the two parts of the research was that in the first part, the majority had to submit an initial thesis based on their own research, whereas in the second part the participants had the chance:

1. to participate in preparation calls with the Scientific committee of the Conference,

2. to process in detail the conference Study Guides, and

3. to listen to 10 Keynote Speeches from professionals and academics with vast experience in the financial sector and banking and to debate for more than two days about some of the issues the ECB is facing.

The participants believed that initiatives such as the Conference and Get Discussions enhanced their understanding on the contemporary economic issues the ECB faces. At the end of the Simulation the participants were asked to evaluate the degree that initiatives such as the Simulation Conference of the European Central Bank are assisting the better understanding of the processes and policies of the ECB and if the Conference enhanced their understanding on the examined topics laid out at Get Discussions. In the first question, 85.7% of the participants that answered the survey completely agreed that such initiatives help to better understand the ECB workings, while the remaining 14.3% strongly agreed. In the second question, 92.9% of the participants at least strongly agreed that the proceedings of the Conference evolved their understanding on the examined questions, while the remaining 7.1% slightly agreed.

The next part of the report summarizes the cumulative results of both processes of the 5th Simulation Conference of the European Central Bank. The findings are written as they were debated during the Conference, thus any further development in the examined topics is not taken into consideration in the current report. The views expressed and analyzed are those of the participants, under no circumstances the views and ideas of the Get Involved scientific team are expressed in this document. In some parts of the analysis, our scientific team disclosed some sources that were used to fact check the reasoning of the participants. In the Appendix there is a detailed list of all participants that completed successfully both processes, submitted their ideas, views and proposals and were truly inspirational and greatly elevated the level of the procedures of the Conference. We would also, like to give special thanks to all the members of Get Involved that were of paramount importance for the smooth operation of the Conference and for the preparation of the current report.

In regards of all the Get Involved team,

Vasilis Angelopoulos, Managing Partner

Anthony Efstathiadis, Partner

Executive Summary

After four days of attending various speeches and debating on some of the contemporary issues of the euro area, the participants of the 5th Simulation Conference of the European Central Bank concluded on a common understanding of the reasons behind these issues and the available tools to tackle them.

Firstly, there was a widespread agreement on the importance of actively engaging ESG issues by the ECB, regarding the long-term financial stability that is strengthened by tackling long-term risks early on and by ensuring price stability that can be affected by external factors, such as climate change. All the ESG pillars are important, namely Environmental, Social and Governance pillars, but the environmental pillar was singled out as the one that should be prioritized as it poses the most direct risk.

The development of a standardized ESG database is strongly believed that will strengthen the financial stability of the euro area, as it can assist the significant financial institutions to operate with prudency on the ESG issues and will enhance the transparency of the financial system and will limit the greenwashing risks. The immediate development of such a database face certain limitations in its implementation, such as the lack of standardized metrics on many ESG issues and the fact that it is highly improbable to include all the financial institutions of the euro area from its launch.

A potential launch of a European Central Bank Digital Currency (CBDC) will most probably impact consuming behavior, if the features of this alternative payment solution offer reduced transaction costs, increased speed of transaction, reliability in its operations and have strong data protection policies in place. The European CBDC is expected to have an immediate impact in the cross-border transactions inside the euro area due to the lack of a widespread pan-European payment service and will increase the competitiveness of the market participants as their market share will be endangered by new participants from other countries.

The ECB's response to the outbreak of the SARS-Cov-2 pandemic was deemed efficient and on the right track. Especially, the development of the Pandemic Emergency Purchase Programme (PEPP) in March 2020, was argued as one of the key reasons that the financial markets were able to continue operating efficiently regardless of the severe economic consequences of the pandemic. Although the long-term implications of the ECB policies cannot be fully measured yet, there was more than positive feedback on the developed policies. The Strategy Review that occurred during the pandemic crisis, was considered to have a pivotal role in the effectiveness of the ECB's policies.

The current high inflation recorded is a result of a number of factors, both internal and mostly external, and its levels should be hardly perceived as the result of Monetary or Fiscal policies. Although some of these policies affected to a certain point its growth, it is considered to be the result of mostly external factors, such as the reduced energy supply and supply chain bottlenecks. The perceived inflation is considered transitory. The termination of the ECB non-standard monetary policies faces a great risk of impacting the financial stability and real economy.

Lastly, the tools and policies for tackling the Non-Performing Loans (NPLs) that occurred in the Global Financial Crisis are believed to be able to efficiently tackle the new wave of NPLs that are expected to occur due to the pandemic and to ensure financial stability. Although the available data may not fully represent the total level of current NPLs, the new wave compared to the first wave is the result of different factors. There is confidence that the policies that are in place will be able to tackle a potential rise on the NPLs levels despite their growth.

Question 1.a: Do you agree with the active engagement with ESG (Environmental, Social and Governance) issues by the European Central Bank? Which of these issues should be prioritized?

The participants agreed that the active engagement with ESG issues by the ECB, will strengthen the financial stability and will have a positive outcome to its statutory commitments. They also argued that although all the pillars are of paramount importance, the environmental pillar possesses a more direct issue and should be prioritized.

According to the Paris Agreement, climate change is treated as an urgent threat to the planet and human society. Thus, limiting global warming comes to the fore and public and private long-term investments are needed more than ever before, in order this objective be fulfilled. Given the high investments required to swift towards more sustainable practices, the necessity of a solid and sustainable financial system is huge. Obviously, a sustainable financial system entails the involvement of the financial sector, its participants and authorities, with environmental, social, and governance issues as empirical data prove that the active engagement with ESG parameters enhances the financial stability in the long term.

It's self-evident that the European Central Bank (from now and on ECB) has to play a crucial and active role in the transition towards a more sustainable financial system. In this direction, the ECB has already incorporated climate change considerations in its monetary policy framework and operations in terms of risk assessment, collateral framework, as well as corporate sector asset purchases. Also, the ECB committed this summer, through its Governing Council, to being in line with EU policies and initiatives with reference to environmental sustainability disclosure and reporting.

The participants agreed that the ECB is correctly giving more emphasis on ESG issues, and by doing this it can strengthen financial stability. Although the participants acknowledged that the European Central Bank is not responsible for taking action for ESG issues, such as climate change and governance, they believe that a number of ESG issues can affect, directly or indirectly, the objectives of financial stability and mostly price stability. The participants of the financial system, by actively taking into consideration ESG parameters in their decision-making processes, can tackle long-term risks as well as risks of the short and medium-term. To support this claim, they referenced Mrs. Lagarde's statement that in 2020 there was $210 [2]billion of damages globally due to natural disasters and this number is expected to grow. Lastly, the participants emphasized that the ECB, given that the objective of price stability is not jeopardized, has a statutory obligation to assist with the European Union's (from now and on EU) economic objectives. The EU since 2015 has raised a series of legislations to promote sustainability, in regard to the Agenda 2030 goals, with the most noteworthy of them being the EU Green Deal that aims to transform Europe into the first continent with zero net emissions of greenhouse gasses, having its economic growth disconnected from resource use by 2050.

All the ESG pillars are important and should be emphasized, but the environment poses an imminent risk to the price stability and financial stability, thus the ECB should prioritize this pillar. The majority of the participants agreed that even though all the 3 pillars of ESG are noteworthy, the environmental pillar should be tackled with more urgency as it poses a direct risk to financial stability. The participants argued that there is scientific evidence[3] of the

[2] Hearing of the Committee on Economic and Monetary Affairs of the European Parliament | ECB

[3] This is how climate change could impact the global economy | World Economic Forum

potential catastrophic results in the economy, if the Paris Agreement goals are not accomplished (an increase of global temperature by less than 2°C from pre-industrial levels). Climate Change can have a negative impact on many assets' valuation, such as real estate, thus creating a number of risks for the financial system. For example, a flood may seriously damage a number of houses that still have active mortgages and as a result, a number of these mortgages may become non-performing loans as the owners are unable or unwilling to fulfill their loan obligations.

Question 1.b: Would the financial institutions benefit from the development of a public database in which the significant banking institutions will disclose their data related to ESG, in a standardized format, following a similar approach as the financial information disclosures?

The majority of the participants strongly agreed on the importance of creating a standardized ESG database; they argued that there are certain limitations restricting its immediate development. This database will have a positive impact for the prudent financial institutions and will assist them in communicating their progress. As for the limitations, the main obstacles discussed were the lack of standardized metrics for a significant number of ESG parameters and that it is improbable to include all the financial institutions of the Euro Area in the launch of this database.

In the banking sector, disclosures and reporting is a good way to provide information and transparency to market participants and stakeholders on institutions' exposure to physical and transitional risk, contributing to the smooth and orderly functioning of financial markets. It is useful for all the market participants to have a clear view of financial institutions' information on governance, disclosure policies and procedures, business strategy, risk management, as well as some metrics and targets. The ECB has already endeavoured to provide the market participants with a report on institutions' climate-related and environmental risk disclosures in November 2020, assessing basic climate-related information by 107 significant institutions (SIs) and 18 less significant institutions (LSIs) in the SSM countries with 2019 being the reference year.

What was found in this report is that the majority of the institutions under assessment inform the public on climate-related risks in their public disclosures, mainly in their annual reports, while less than one third of the institutions reveal the potential impact of transition risk on their business model. Among the most interesting findings of the report is that only 50% of the assessed institutions disclose the board's oversight of climate-related risks or climate-related opportunities, with only 50% of the institutions having publicly described the processes for identifying, assessing, and managing climate-related risks. Finally, only a small percentage of the institutions under assessment, just over one third, reveal targets and metrics, while only few provide quantitative information regarding the carbon intensity of their portfolios.

The participants strongly agreed that a standardized ESG database for the significant European financial institutions would have a positive impact, but only for the prudent institutions. They argued that the development of a transparent database for ESG information in a standardized format, will greatly benefit both the ECB and the financial institutions. Firstly, the supervisory objectives of the ECB will be performed in a more efficient process, as well as potential systematic risks regarding ESG risks could be detected immediately. As for the financial institutions, a standardized database for ESG materials can have multiple benefits, such as benchmarking, transparency, and comparison with the industry standards. The transparency that this database will develop on the ESG materials can create value for the ESG prudent financial institutions. As empirical results prove, the active engagement on ESG issues has a positive financial impact and a growing number of investors are including ESG parameters in their decision-making processes. The participants believed that the enhanced transparency can result in an increase of Green Banking practices, and it will simultaneously reduce significantly the risk of greenwashing. They also noted that stakeholders' engagement can greatly benefit the financial institutions, as it will increase the number of parameters taken into consideration in their decision-making, thus having more holistic results.

The participants stressed that although the development of a standardized ESG database can be of great importance, it will be a complex initiative. The participants highlighted two main limitations on the fast implementation and development of this database. First of all, a significant issue of developing a standardized ESG database is that a noteworthy number of ESG issues do not have a standardized measurement. To create such a database in the short to medium term the ECB should first create a framework for environmental issues described in the EU Taxonomy, and as more issues are being standardized will be included in the future. The second limitation is that it is improbable to include all the European financial institutions by the launch of the database. For this reason, the participants proposed that the institutional financial institutions of the Euro Area should first be included in this database, but in due time all the financial institutions operating in the Euro area should be included in this database. Lastly, to ascertain the reliability of the materials disclosed, the participants supported the idea that these ESG materials should be audited in the same way as the traditional financial information found in a firm's financial statements.

Question 2: Will the development of a Central Bank Digital Currency (Digital Euro) impact your consumption behaviour and if yes how?

The participants after analysing the changing dynamics of the market, the evolving digitalization of the economy and the potential benefits of a European Central Bank Digital Currency (from now on CBDC), reached to the conclusion that it will most probably impact to their consuming behaviour and mostly to their cross-border transactions.

Over the last years, digital payments have recorded an increase in most countries worldwide, mainly driven by the rapid technological developments. Crypto Assets and blockchain technology have contributed to the digitalisation of the financial landscape in recent years, while the coronavirus pandemic fast-tracked the transition to a more digital environment of payments. These developments have a direct impact on consumer behaviour and habits, because as the global economy starts to stabilize and people adjust to the new normal, it becomes clear that digital solutions are not considered an extra benefit for consumers but a vital part of their daily life.

The idea of a digital euro might be considered as a response of the ECB to cryptocurrencies, virtual currencies that are secured by cryptography, based on blockchain technology and generally not issued by a central authority. Although three or four years ago only few were talking about the digital euro, the Eurosystem working group is planning to unveil it between

2026 and 2028. The digital euro is not going to substitute for banknotes, rather act as a complementary to them, with one of its most powerful characteristics being that it forms a guarantee underwritten by the ECB, the strongest guarantee possible. Its competitors will be the cryptocurrencies, which of course are not money, and the so-called stablecoins created by private companies, such as the Libra launched by Meta, and other currencies that are being planned by other big technology firms.

The participants, with some reluctance, agreed that a CBDC will impact consumer behaviour. They stressed that the digitalization of the economy, the rapid growth of e-commerce, and the development of digital service solutions accelerated by the SARS-Cov-2 pandemic are creating the need for more reliable digital payment options. The participants agreed that in order for the CBDC to succeed there are some criteria to be met. In summary, the adoption of a CBDC will be affected: i) if the transaction costs decrease substantially, ii) if the speed of a transaction is significantly increased and iii) if the citizens of the euro area regard the CBDC as a reliable solution. The data protection policies that this CBDC will incorporate, will also affect the level of trust the consumers will have in this payment method. Lastly, the CBDC will be a parallel payment method of the existing payment solutions (physical money, card payments, digital wallets etc), thus the participants considered that its launch will not disrupt the price stability.

They stressed that CBDC will impact mostly the cross-border transactions and will result in fostered competitiveness. A European CBDC is expected to firstly impact the cross-border payments inside the Euro Area. The lack of a widespread pan-European payment system/service, as well as the costs that accommodate the European cross-border transactions, can have as a result the early adoption of CBDCs in cross-border transactions. If, indeed, a European CBDC reduces the costs of cross-border transactions, the consumers of the Euro Area will have more options in where to acquire products and services. As a result, a lot of markets will become significantly more competitive. The growing competitiveness in many industries may result in some short-term negative outcomes, as many industry players (mostly SMEs) will have to leave the market as they will not be able to compete with all the new players, but in the long-term competitiveness tends to bring-forth more innovations and increased efficiency.

Question 3.a: Do you consider that the European Central Bank acted swiftly in implementing programs and policies for tackling the adverse economic developments of the SARS-Cov-2 pandemic? Do you rate these policies as efficient?

The overall effectiveness of the policies taken by the ECB for minimizing the adverse economic developments of the pandemic on European financial stability, and as an extension on price stability, can be graded as positive, but a more reliable evaluation on this can be only conducted after the end of the pandemic.

The shock caused by the coronavirus pandemic was really extensive, having an impact on both the global economy and society. As for Europe, the ECB's reflexes were immediate, helping the European economy absorb the shock of the pandemic, through the €1,850 billion Pandemic Emergency Purchase Programme (from now on PEPP). More specifically, the ECB purchases different types of bonds, in order to boost spending and investment, supporting in this way the economic growth. This programme complements the Asset Purchase Programmes (APPs), being already in place by the ECB since 2014.

Moreover, the ECB kept access to credit affordable, through keeping its key policy interest rates, that is the interest rate on the main refinancing operations (MRO), the rate on the deposit facility, and the rate on the marginal lending facility, at historically low levels. In parallel, the ECB continued to give access to credit and liquidity for both firms and households, increasing the amount of money that banks can borrow from the ECB, making it easier for them, in this way, to borrow money, through loans, to those hardest hit by the consequences of the pandemic. Furthermore, the ECB managed to ensure that short-term concerns will not prevent lending, as in times of uncertainty like the current one, banks may find it harder to borrow money for short-term needs. At the same time, the ECB increased European banks' lending capacity, by being less strict about the capital that banks are required to have as a buffer for difficult times. This looseness allowed European banks to free-up funds and provide the economy with liquidity.

The participants believed that ECB acted swiftly and efficiently, minimizing the adverse economic consequences deriving from the outbreak of the pandemic. According to the participants, the ECB efficiently used the experience of the global financial crisis of 2008, and the tools it developed for tackling the adverse developments in the economies of the euro area, to minimize the negative economic effects of the outbreak of the pandemic of SARS-Cov-2. More precisely, the ECB announced the PEPP in March 2020, the month that SARS-Cov-2 was pronounced as a pandemic. Also, the fact that the Governing Council broadened multiple times the timeframe and the potential monetary dynamic of the PEPP indicates a quick and flexible adjustment to the developments of the pandemic. ECB also broadened the timeframe of the APP and TLTROs to combat the adverse economic developments of the pandemic. In summary, the participants expressed that the ECB acted fast in tackling the adverse consequences of the pandemic, developing a variety of tools enabling the overall participants of the financial system to keep operating.

They expressed that the ECB acted efficiently, but the long-term implications of these policies cannot be fully measured yet, also the Strategy Review enhanced the results of the policies developed. The participants stressed that the ECB's bold decision to review its monetary strategy during the global pandemic was pivotal to ensuring the efficiency of the monetary policies developed. The policies taken by the ECB had as a result: i) the interest rates to remain low, on many occasions close to their historical low, ii) the lending conditions to remain at least stable by facilitating them and iii) the money creation to stay undisturbed. The participants also argued that the long-term implications of these policies cannot yet be fully comprehended as there is a time period, of around 18 months[4], that is required for the results of a monetary policy to be reliably calculated. Another point that they emphasized was that the successful combination of Monetary Policies (responsible for these is the ECB) and of the Fiscal Policies (responsible for these are the nation members of the EU and a number of EU Bodies) made the policies implemented by the ECB more efficient. Lastly, the participants argued that the recent spike in the Harmonized Index of Consumer Prices (from now on HICP) index is a serious issue for the ECB, as it impacts its statutory objective, but the non-standard monetary policies taken by the ECB should not be considered as the reason for this spike. Mainly, this spike is

[4] The participants to validate their thesis, used as evidence parts of the interview of the President of the ECB, Mrs. Christine Lagarde with Frankfurter Allgemeine Sonntagszeitung, published in the 26th of November 2021 (to view the interview click here)

the result of the extreme increase in the index's components of “Housing, electricity, and gas, etc.” and “Transport” which are not strongly connected with the above-mentioned policies. Also, another argument made by the participants is that there is a global spike in inflation, thus this issue should not be considered solely as a European challenge.

Question 3.b: Do you consider the rise in inflation that is recorded during 2021, a short or long-term phenomenon? How much did the Fiscal and Monetary Policies affect this rise?

The participants viewed that the ongoing inflation is not derived either from the Monetary or Fiscal Policies in place, but it is a result of multiple parameters. The inflation is believed to be transitory, and the ECB should not terminate its policies as it may lead to devastating economic consequences.

The pandemic managed to make monetary and fiscal policies work together to boost the global economy and stimulate demand for the first time in decades leading, directly or indirectly, to high growth and high inflation. Most countries globally have adopted expansionary monetary and fiscal policies in order to mitigate the economic consequences of the pandemic and support the labor market. There is a hot debate on whether high inflation is a temporary or a more persistent phenomenon. It is believed that the close monetary-fiscal cooperation is an exceptional response to the pandemic and should end when the pandemic comes to an end. However, there are economists mentioning that monetary-fiscal cooperation can give us an opportunity to escape from the persistent “liquidity trap” that is affecting advanced economies.

Some international drivers of inflation are likely to decline in 2022, as global energy prices will probably stabilize and fall, supply chain bottlenecks will start easing, and fiscal support will lapse as the pandemic ends. Nevertheless, there could be several indicators that would make inflation more persistent. Demand will remain elevated as reduced consumption during the lockdowns and fiscal stimulus provided by governments have supported for a long period people’s savings. Also, other indicators suggesting that inflation could remain at high levels for more time are the labor force, which in many cases remain below its expected level, the home and rental prices, as well as wage growth expectations which could pass through to higher prices.

The participants believed that the current inflation is transitory, and it is not a direct result of the ECB’s policies, although they impact it to a certain point. The participants believed that the recorded high inflation of the past few months is a result of various occurrences and should not just be explained only as the result of monetary policy. As they argued, the SARS-Cov-2 pandemic resulted in creating a series of disturbances in the global markets as in the supply chain, the energy prices, and the services sector. The overall inflation, as calculated in the HICP, is broken down into a number of components that affect its level, and as it depicts the components with significant-high inflation are the “Housing, electricity, gas, etc.” and “Transport”. The participants debated that the Monetary Policy followed by ECB should not be considered as the reason for the high inflation, but the non-standard monetary policies that have been developed are partly responsible for the rise of inflation. They stressed that the simultaneous expansion of the Monetary and Fiscal Policies by the ECB and its nation-members resulted in a growing number of market participants having access to favorable financing conditions, thus being able to preserve their demand for certain goods, raw materials and services despite their low supply. Concluding, the participants debated that the current inflation is believed to be a short-term phenomenon as the real market is reopening, there is also a rebalancing effect on many prices which fell greatly by the beginning of the pandemic as well as that the supply chain is still phasing a number of disturbances and obstacles.

They strongly believed that it would be dangerous for the ECB to stop offering the necessary liquidity as it may have devastating results for the general economy as well as the financial stability, impacting the price stability. The participants expressed that the monetary decisions of the ECB should hardly be considered as responsible for the rise of inflation. If the policies of the ECB would be terminated, a growing concern was observed among the participants that the statutory obligation of price stability might not be met, resulting in a noteworthy risk of significant disturbances in European financial stability. Fiscal Policy is able to impact more directly a greater number of markets participants and is also able to regulate more sectors than the Monetary Policy. Considering this, the Fiscal Policy can affect more efficiently the sectors that are the most responsible for the rise of inflation but should not be considered as solely responsible for tackling the inflation levels.

Question 4: Since the outbreak of the Global Financial Crisis, for a second time, the level of the Non-Performing Loans has increased significantly. The reasons for this rise are different from the first wave, as it is mainly driven by external factors of the financial system. Do you think that the policies that were developed for the first wave of Non-Performing Loans will be able to tackle the new wave?

The participants expressed that the current evidence about the level of Non-Performing Loans (from now on NPLs) may not contain the full view of the issue, but the policies that the ECB as well as governments have undertaken to tackle this potential issue are in the correct direction and the deployment of the already existing tools will most probably ensure the financial stability.

After the great financial crisis, it is clear how high levels of NPLs can limit banks' ability to provide the real economy with liquidity. The NPL ratio of Euro area banks stood at around 2.8% in the Q3:2020, down from around 7% at the end of 2015. This significant progress made Euro area banks more resilient before the outbreak of the pandemic. However, NPLs are expected to increase again due to the shock caused by the coronavirus pandemic.

The main concern is that, as fiscal stimulus measures and quantitative easing (QE) are phased out the likelihood of bankruptcies among businesses and especially SMEs is likely to increase and bank customers may find it harder to repay their loans. This is likely to result in a higher share of NPLs on bank balance sheets, which, in turn, will require higher provisions, generate losses and limit banks' lending capacity as well as their already low profitability. Banks have to take into account all available evidence and develop alternative credit risk indicators which include the new environment amid pandemic, performing credit analysis to determine whether a borrower's true credit situation indicates a more permanent credit deterioration. Banks need to look beyond the government support and moratoria used in order to soften the temporary effects of the pandemic. The best option for banks in order to avert the damaging effects of future debt hangovers and resolve and dispose of NPLs faster and smoother is to identify NPLs as soon as possible.

The participants argued that the available data may not fully represent the total level of current NPLs for two reasons. The outbreak of the pandemic caused serious disturbances to the global economic activity, mainly to the supply chain and the service sector, and many of them have not been fully retired. In addition, in the short to medium-term, as the global economic activity is gradually restored, the revenues and incomes of firms and households may rebound to their pre-pandemic levels. Some firms or/and households that had their income significantly shrank due to the reduced economic activity will be able to start repaying once more their debt. Of course, many households and enterprises were and are affected to a significantly greater extent, for these cases some of the participants noted that it is highly unlikely for the households and enterprises to fully repay their loan obligations, even after the end of the pandemic crisis and its economic consequences.

They stressed that by keeping the financing conditions favorable and deploying the existing tools the ECB will be able to tackle the potential growth of the NPLs. The participants stressed that although the pandemic of SARS-Cov-2 had and has an adverse impact on the economy, the tools and policies that ECB deployed resulted in keeping the financing conditions favorable for both the firms and the households. Due to the favorable financing conditions in the Euro Area, banks were able to keep providing liquidity with sustainable terms to firms and households and not to increase their lending interest rates. They also debated that lending interest rates do not just affect potential borrowers, but also the active ones. Borrowers can be affected because of the loans' floating interest rates, or because they need to refinance part of their debt with an increased cost. To tackle this issue, many governments and some European institutions have acted as guarantees to a noteworthy volume of debt for the private sector. Taking all these into consideration, the participants reached to a conclusion that the already existing tools for tackling NPLs propose a better and more safe solution than developing and experimenting with other untested theories and policies. They also proposed to emphasize on the solutions that prolong the timeframe of the loans to efficiently reduce the growth of NPLs and to ease the debtors' obligations.

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