

## **Leena Mörntinen, Permanent Under-Secretary, Ministry of Finance, Vice Chairman of the Board, FIN-FSA.**

### **Comments on Mr. Enria's speech**

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### **Ms. Mörntinen's speech:**

Good morning everybody I'm in is such a pleasure to see so many people in physical form and and most of you without the mask so I can actually recognize you.

So it's it's really really lovely.

And and.

Many thanks to Anneli for the very comprehensive speech in the beginning as well as kind introduction and and particularly warm.

Thanks to Andrea, it is such a pleasure to be with you in this sort of small discussion.

Fireside disc.

Person, and particularly it's impressive because we used to work together at the ECP under.

Of course, more senior the supervisor aside and I on the financial stability.

And that was the beginning of the 2000 and and it was about 2000 and two 2003. This was not a big thing. Nobody discussed European supervisor that was so far fetched idea.

Yeah, and also the financial stability was a sideshow, so it wasn't really the thing that people were interested in, which is fascinating.

Now that you look after the crisis, how much has changed, but under his presentation it's really difficult.

I mean, I was trying to, you know, provoke to be really tough on Andrea and.

And raised questions, but I have to say it's really difficult to pick a fight with him.

What I very much appreciate in his view is it is always the bigger picture and it is to the point and and and the points are difficult to disagree.

But let me see if I can find something that we could sort of get the audience as well a little bit warmed up to ask questions from us as well.

So I've been wondering about not only due to the presentation that Andrea gave and the the you know the kind request to come and speak here about the new normal that we are entering.

And really, the way I see and you know, I'm a pessimistic Finn so I always see the risks rather than anything else.

But it is a world of of elephants in the room.

It is a world of grey rhinos, and it is the world of black Swans.

And that's all that also comprises of how banks you think about their risk management.

And of course us all think about what sort of world we are building in.

So the Gray rhinos, of course, are the perhaps the most problematic ones because they are the problems that we know exist, but we just don't want to deal with them very much because they are difficult.

And the black Swans.

Other unknown unknowns.

So we just have to prepare them by buffering up and elephants are the ones that we don't want to even discuss in the same room and that shows.

I mean, Andre was referring to already the banking union finalization of it, or taking it deeper.

Many of the difficulties many elephants in the room are actually political issues.

Economic economists would have already solved them.

It is politically difficult to push certain things forward and one has to agree.

Of course, that those matter because in the end of the day, all that we have that all that really matters is political stability as we know.

But you know, when I gave the speech is you know before just after you know before pandemic.

But just after the financial crisis, the global financial crisis started.

I used this cartoon where there was this guy jumping out of a skyscraper and landing on a taxpayer.

And if I sum up I I'm not only talking about the world after pandemic, I'm I'm sort of talking about the world after the global financial crisis, the world after euro crisis and then pandemic summing those all up.

And if you look at what has happened to the government, is basically everything landed on the government.

So it was first a ban.

And then of course, euro crisis.

Well, everybody landed on the central banks and then now after pandemic, non financial companies are have landed on on governments and that of course explains why banks are in such a good condition.

In addition to the fact that they have buffered up quite nicely due to the regulation that changed.

Now, what concerns me quite a bit.

And under referred to it showing the figures that and answered certain optimistic messages as well.

Is is.

There's a growing concern of the profitability of the banks.

It is really.

Excellent news to hear that the pandemic might actually result into something positive.

Which is banks really finally doing what we've been asking them to do, or rather ask their investors to push the banks to do.

To update their business models and take the digitalization seriously.

So one really have to be.

It is a great news and and really one has to appreciate what good comes from such a horrible thing like pandemic as this that we've been able to go on digital platforms to the extent that we have.

And actually that may result.

And banks be coming out of this in a better shape.

Actually doing what they are supposed to do.

Now under referred to the point that banks are, you know, there is a sort of a bit of a controversy between the large big tech companies and banks, but one has to of course realize that banks are information business companies.

They are information platforms before any big tech even existed.

So there's a natural tension between the two, and of course what we are asking as legislators and what supervisors are asking as regulators, is that they do their job better.

They were supposed to price.

The risk, and they didn't do that good of a job in the in the financial crisis.

Now, of course, after pandemic, nobody could have priced that one in.

But the question is they will have to start doing that better afterwards after this crisis after the final recover and and I'll, I'll briefly speak about the Basel 3 as well in this context.

But if you really look at it, it's the banks, central banks balance sheets that have grown in all.

Currently, and the governments have gotten more indebted and at the same time we hear with you know, the unhappiness with the Basel.

3 and unhappiness about the global competition, because let's face it as well.

One thing that I don't think underley and and Andrea mentioned, but really we have moved from the world of globalization to a world of.

Dear politics and to your economics, which is a completely different environment to try to do these things than it used to be because it used to be about the bigger cake for everybody.

So bigger piece of a pie.

Right, and now it very much.

Very often you know present it as if it was a winner, takes it all, or winners against the loser.

Stop game and that's that's much more difficult place globally as well to get things.

Done, but in any case there is also then, with the globalized pressures.

Of of, you know, having to get your business to better in a world that is geopolitical to try to push industrial policy for.

And I sometimes hear somewhat worrisome tones about industrial policy in Europe as well.

It should really be.

The finance should be about efficiency and and of course healthy competition in every industry is still something that I hope that we return back to after we get out of the COVID.

We were sort of I, I guess, part of the fact that it seems a bit like the regulatory pendulum.

It's it may be swinging.

A little bit back to where it started from, at least the tones are softer, have to do with the pandemic as a crisis, but also with the fact that the interest rates have been so low for so long and there has been an idea that they are lower for longer for quite a while, but I think the latest developments are.

Are worrisome, we see their energy prices increasing.

We see inflation picking up.

It may be transitory.

We all hope.

But it is, but one can't take anything like that for granted, and particularly with governs more indebted, we will have to take the indebtedness as well.

Seriously, and it is true that the both the public finances are stretched, but so are households so household indebtedness hasn't grown quite significantly in Finland. I think we are flirting with about 135.

To to our disposable income, which is much higher and continued increasing throughout the crisis.

So this is a sort of a thing that we have to tackle and take seriously as well.

Now the next steps in new Normal.

It is true that Finland approached this somewhat differently than in many other European countries, but of course the pandemic hit the countries also very differently.

Nordic Banks Capital liquidity has remained very strong throughout the crisis, and there has been no public moratorium.

Issued so basically, and I think the asset quality has remained good.

But it is very encouraging to hear from Andrea as well that the states too.

Of loans that they are now recognized as well by the European banks and and and we start getting a handle what the quality of the assets are in the banking sector.

In general, it is extremely important to understand where the risks lie and what they are about, because that's that's something that banks should do themselves and and and obviously.

They are now starting to so thank you for the supervisors for doing a good job.

But of course, the public sector measures are still the main explanatory factor why the banks are doing so well, because the buffers were not really forced to be used due to the fact that the non financial sector got so much relief and help in the situation.

The economic impact of the crisis was less than we expected in Finland, so the four was minus 2.9% GDP growth wise in 2020, much less than what we feared. But now, of course, the key question is.

This you know, we see we've done a lot of measures next generation.

EU is helping you to recover.

Now the question is whether the bottlenecks will be somehow overcome.

Because there are huge investment needs at the same time as we have to somehow take a step away from the supportive measures.

So how to manage this?

All is an extremely.

Important and.

A difficult thing to manage potentially.

Now on on the Basel III.

That that is a bit of a pickle.

No, I think it was about 6 days ago.

Then it was the legislative proposal was given and it takes a while to figure out really what goes on in it.

Because there are.

A lot of.

Things that try to at the same time.

Also, you know, reduce the shock of very long transition periods.

I've understood from the media that.

The banking sector is very unhappy about it.

It's a lot of discussion about the raising level of capital requirements to do it.

Now my question is, looking at the Rhinos and the elephants and and everything in the room and outside it potentially a threat, we really don't know about the unknown.

Unknowns and the capital buffers are to protect against that.

Now of course there are good cases to be made for having ability to release buffers in exceptional crisis situations, such as the pandemic.

But I must say I'm more of the persuasion that believe.

Means that good buffering up against a crisis because you don't know what the next crisis is about is always very healthy.

Now, having said that, of course banks role.

As I said, they are information platforms.

They wear that before the big tech their role is to dig deeper into the data and figure out what the price of risk is and I hope they get it.

Good sparring partner from the Capital Markets union.

Because more competition there is in this game the price there is the better it comes, but it is difficult to price in a situation where there are still so many exceptional measures in place as well as you know central bank policies.

But the government policies as well, but indeed that has to be done better, and the Basel 3 hopefully.

Helps, although it sets a floor to internal models.

I think it's still the markets role to push for the banks to do a good job on this and to compete for the customers and providing best services.

Whether they are lending or payment services or other services, because it may very well be that the digitalization actually transfer of or pivots the banks business models in ways that we can't.

Really yet figure out, so I'm hoping that that sort of thinking is finally picking up the pace and starting now that the pandemic got the got the sort of door open and banks are embracing it, hopefully.

I'm just concerned that due to the lot of commotion and large unhappiness in the media, but the puzzles free that it will become quite a Christmas tree that it will be covered.

I mean the exceptionalities or the spatialities in the you know different Member States in Europe will require.

Attention from the political side and will take it further from the idea that it's just sitting more of a floor to internal models that may start carving out the idea of of risks and their pricing being key.

And and you know more sort of an idea of a supporting factors or something like that bring compensating for for what is being done would not be a very smart idea.

I think it would go against the grain of of the financial sector having to price the risk, but we have huge challenges as well that we have to tackle.

I'll come back to those towards the end of it, but it'll be interesting to see what is the end outcome after negotiations for the Basel III.

What sort of a what sort of package do we put together in the end?

I hope it's a sensible one, and Andreas points where we're quite good on those.

Now on the banking union.

Now, why doesn't it have Edis yet?

I mean, we do have a banking union, we just don't have a European Deposit Insurance system and I think it is.

It is easier to understand the challenges in negotiating such a deal when one thinks about what a moving animal it is.

It is actually not fixed in time.

The crisis management and Deposit Insurance review are are on on the way.

The Commission is going to.

Hopefully give one day their proposal on it.

For us, before we know how the crisis management framework is changed, it is really difficult to accept that we would have to agree on.

Common Deposit Insurance scheme.

The problem is that there is probably some ideas floating about or thinking potentially of using those.

Funds for other things than just covered deposits in in helping the depositors.

In the situation where bank is in crisis and there has to be more clarity on that, what is the use of it is before agreeing to it, of course is a bit of like a unhappy marriage in the sense that different countries different Member States have different.

Issues with the package.

There is definitely a home host issue.

There is the discussion about the regulatory treatment of sovereign exposure, which is of course very heated as well.

There is the crisis management and there is.

It is so there are a lot of different bits and pieces that are trying to be negotiated together and this work will continue.

You very soon are.

Actually, it's already ongoing on certain levels, but politically as well later on, when there is clarity on what direction we want to take, but for from our point of view, clarity on the crisis management framework and the changes that our plan to it would be really good to know because we are very committed actually to have a full blown.

Banking units, all its glory.

Also the whole Ed is provided that the bailing is respected and it applies to banks consistently so, so no bailout of any sort of.

Best that is now beyond the rules that we have now would be except for the what the deposit guarantee scheme covers would be something that we would be very fixed on.

So what so?

The world east extent that we are looking at?

I mean everybody is more indebted after the global financial crisis, the euro crisis and the pandemic.

So, so we need to buffer up.

We there has to be good buffers for the next crisis.

We don't know what it is.

I often joke that it must be then the aliens, because it's almost everything else that we've seen already, but clearly it is not enough that we trust that things will go better or there they are lower for longer or or rely on our good luck.

I think the history has shown that.

In less than 15 years we've had three crises, so things just happen, and I guess you could call that a new normal.

We just have to be good at handling the crisis no matter what they are.

It means that it can't always be landing on the taxpayer.

And on the government, it's also that the companies will have to become better in understanding.

It's very complicated and quickly moving.

High frequency, environmentally living and at the same time while they accept the fact that the world is uncertain, place the Goldilocks world before the global financial crisis.

Now that's history, I don't.