

# BANKING POLICIES IN 2020 - 2021

*PhD Edith Mihaela Dobrescu<sup>16</sup>*

*Professor PhD Emilian M. Dobrescu<sup>17</sup>*

## **Abstract:**

*The paper analyzes the evolutions registered in the period 2020 - 2021 of the policies of the main European, American and Chinese banks. We analyze the effects generated by the introduction of a digital euro, the integration of climate risks by banking systems, the evolution of the profits of some central banks, as well as the increase of savings in Yuan.*

**Keywords:** banking policies, BCE, BEI, FED, FDIC

**JEL classification:** G20, G24, G28, G38

## **Introduction**

In the response of the Covid-19 pandemic, supervisory, macroprudential authorities and governments have taken large-scale action in order to mitigate the effects of the COVID-19 pandemic on real economies and banking systems. These policies include capital relief measures put forward by ECB Banking Supervision, the loosening of macroprudential policies by national authorities, public moratoria and guarantees, and supervisory flexibility which allows banks to benefit from the two latter measures. In March 2021, the European Central Bank (ECB) maintained the monetary policy interest rate at 0% for the Euro Zone and the interest rate on the deposit facility at -0.5%.

## **Description of the Problem**

### **Increasing the saving rate in Yuan**

Approximately a third of the world's central banks plan to include the Yuan, China's national currency, in their reserves, confirming the strength of the world's second-largest economy, its currency. The 30% of central banks plan to increase their Yuan holdings in the next 12-24 months, compared to just 10% in 2020, according to the annual Global Public Investor survey published by the OMFIF research institute in London. On the other hand, 20% of central banks intend to reduce their dollar holdings in the next 12-24 months, and 18% want to reduce those in euros. The share of the dollar in international reserves fell at the end of 2020 to its lowest level since 1995. At the same time, about 14% of central banks want to reduce their holdings of sovereign debt in the Eurozone, an intention attributed mainly to the negative interest rates of the European Central Bank. Only 59% of central banks would use more than 30% of their reserves in the event of a severe currency shock, while 45% of pension funds invest in gold, well above the 30% of the 2020 survey.

The growing trend of the yuan's influence is certain, despite the clashes between Western governments and China. The influence could be strong, especially in Africa, where nearly half of central banks plan to increase their yuan reserves.

On the other hand, 75% of central banks believe that monetary policies have an excessive influence on financial markets. However, only 40% of central banks believe that these policies

---

<sup>16</sup> Scientific Researcher grade III at Institute for World Academy, Romanian Academy, Calea 13 September no.13, Sector 5, Bucharest, Romania, e-mail: [edithdobrescu@gmail.com](mailto:edithdobrescu@gmail.com)

<sup>17</sup> Titular Member of the Academy of Scientists, Romania, e-mail: [dobrescu@acad.ro](mailto:dobrescu@acad.ro)

need to be actively rethought. Central banks, sovereign wealth funds and public pension funds control a record 42.7 trillion dollars in assets. The Central bank reserves have increased by 1.3 trillion dollars in 2020 to a new high of 15.3 trillion dollars.

## **Digital euro**

The European Central Bank (ECB) has launched its most important project since the introduction of the European currency: the digital euro. The project started with an evaluation phase, followed by tests. If evaluation and testing go well, the digital euro could hit the market in 2025, giving people a new means of payment.

"A sovereign Europe needs innovative and competitive payment solutions," said German Finance Minister Olaf Scholz. The digital euro will allow households and companies to deposit this currency directly into an account opened with the central bank - an action that until now was reserved only for commercial banks. The money will be protected against any risk of loss.

Central banks want to bring stability to the highly speculative world of digital currencies, whose prices have fluctuated significantly in the last year. "One euro today must be worth one euro tomorrow, in cash or digitally," the ECB said.

## **Integration of climate risks**

Central banks and financial supervisors must find the right analytical tools, methods and data to integrate climate risks into their work, in accordance with their responsibilities, according to Governor Mugur Isărescu, at a conference organized on February 25, 2021 by the National Bank of Romania (BNR) and the European Investment Bank (EIB).

The NBR Governor named three of the ways in which climate risks can be integrated: 1. assessing the financial sector's exposure to climate risks, including climate-related criteria in stress tests; 2. ensuring that banks build appropriate business strategies and credit risk management frameworks to address climate risks; and 3. increasing awareness of the risks and opportunities for the economy and the financial sector arising from the evolution of climate change.

"At the level of the European Union, there is a consensus that the recovery from the current Covid -19 crisis must be sustainable. The European Green Pact and Next Generation funds offer a unique opportunity to allocate and transform resources for the greener and digital economy. We must take advantage of this opportunity ", the NBR Governor mentioned on this occasion.

## **Monte dei Paschi di Siena**

The government in Rome saved Monte Paschi from bankruptcy in 2017, but must sell its stake in 2021 according to EU rules. Several options are now being analyzed, including the division of the bank and its sale into pieces, as well as the extension of the deadline by which it must leave the shareholding of Monte Paschi, sources who wished to remain anonymous have revealed.

Discussions about a possible takeover by UniCredit were frozen in early 2021 amid a change of government and the appointment of a new CEO at UniCredit. At the same time, Monte Paschi has a capital shortfall of 2.5 billion euros and warned that it may have to postpone fundraising plans.

A last option could be to request an extension of the deadline, set by the EU for 2021, by which the Rome authorities must leave the Monte dei Paschi shareholding.

Tensions at European level over this sector have deeper roots, after several documents were made public in 2015, which showed that Luxembourg helped more companies channel their profits while paying lower or lower taxes place. Since then, Margrethe Vestager, vice-president for the digital age of the European Commission, has launched a campaign to combat these practices and opened investigations into the Finnish company Huhtamaki, to pay taxes retroactively to

Luxembourg and the Dutch tax treatment of Inter IKEA and Nike. The Netherlands and Luxembourg have denied any breach of EU rules. In January 2021, the Netherlands introduced a rule for taxing royalties and interest paid by Dutch companies to jurisdictions where corporate income tax is less than 9%.

## **European Central Bank profit in 2020**

The European Central Bank (ECB) announced on February 18, 2021, that in 2020 it registered a profit of 1.643 billion euros, down 33% compared to the record profit of 2.366 billion euros reached in 2019: the decline can be justified by the reduction in revenues net of interest on foreign reserve assets and on securities held for monetary policy purposes.

In 2020, net interest income totaled 2.017 billion euros, compared to 2.686 billion euros in 2019. Also, net interest income on foreign reserve assets decreased to 474 million euros, and net interest income from securities of value held for monetary policy purposes decreased to 1.337 billion euros, compared to 1.447 billion euros recorded in 2019, the institution said in a press release. However, earnings from financial operations amounted to 342 million euros, compared to 197 million euros in 2019. The increase is justified by sales of securities in US dollars.

The profit of the European Central Bank is distributed to the national central banks of the Eurozone. On January 29, 2021, the Board of Governors provisionally distributed the profit of 1.260 billion euros, and the remaining profit, amounting to 383 million euros, was distributed on February 19, 2021.

## **Profits of American banks**

The US banks' profits has strike down 36.5% in 2020 from 2019 due to massive provisions, but the banking industry showed signs of strengthening in the fourth quarter of 2020 as the US economy began to recover from the pandemic.

The US banking industry posted profits of 147.9 billion dollars in 2020, down from record profits in 2019, according to the US Bank Deposit Guarantee Fund (FDIC). FDIC's profits rose 9.1% in the fourth quarter of 2020 to 59,9 billion dollars after lowering provisions for non-performing loans. FDIC President Jelena McWilliams said the new data showed that despite declining profits, banks had shown resilience amid the COVID-19 pandemic.

Also, the chairman of the US Federal Reserve (Fed), Jerome Powell, said that the central bank (Fed) is still debating whether to restore the stricter capital requirements of banks. The increase in profit recorded by banks in the fourth quarter of 2020 was mainly due to the reduction in reserves against potential losses; The FDIC said so-called provisioning losses fell by 76.5% at the end of 2020 compared to the end of 2019 to 3,5 billion dollars, the lowest level since 1995.

The FDIC noted that an imminent challenge for banks was the persistent environment with low rates. Banks saw their interest income fall for five consecutive quarters, and the average net interest margin remained at a record low in the fourth quarter.

## **Conclusions**

Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances and also at the pandemic influences. Monetary policy plays an important role in stabilizing the economy in response to these disturbances. While some financial vulnerabilities have increased the institutions at the core of the financial system remain resilient. The consequences of climate change might impair the transmission of central banks' monetary policy measures to the financing conditions faced by households and firms, and hence to consumption and investment. In the same time, climate change could further diminish the space for conventional monetary policy by lowering the equilibrium real rate of interest, which balances

savings and investment. Also, both climate change and policies to mitigate its effects can have a direct impact on inflation dynamics.

## Selected Bibliography

Acharya, V., Eisert, T., Eunger, T., C. Hirsch, 2019. Whatever it takes: The real effects of unconventional monetary policy. *Review of Financial Studies* 32, 3366-3411.

Caby, J., Ziane, Y., & Lamarque, E. 2020. The determinants of voluntary climate change disclosure commitment and quality in the banking industry. *Technological Forecasting and Social Change*, 161(120282). <https://doi.org/10.1016/j.techfore.2020.120282>.

Demirguc-Kunt, A., Pedraza, A., & Ruiz-Ortega, C. 2020. Banking Sector Performance During the COVID-19 Crisis. *Policy Research Working Paper*, 9363, 1-49

International Monetary Fund (IMF), 2020. Mitigating climate change – growth- and distribution friendly strategies, *World Economic Outlook*, Chapter 3, Washington, DC, October.

McKinsey & Company, 2018,. A decade after the global financial crisis: What has and (hasn't changed)? <https://www.mckinsey.com/industries/financial-services/our-insights/a-decade-after-the-global-financial-crisis-what-has-and-hasnt-changed>

McKinsey&Company,2020a. Banking system resilience in the time of COVID-19. <https://www.mckinsey.com/industries/financial-services/our-insights/banking-system-resilience-in-the-time-of-COVID-19>

McKinsey&Company,2020b. McKinsey's Global Banking Annual Review. <https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review>

National Bank of Romania, 2020 NBR measures in the context of the COVID-19 epidemic. <https://www.bnr.ro/NBR-measures-in-the-context-of-the-COVID-19-epidemic--21313.aspx>

\*\*\*, (2021), Central banks increase yuan reserves in the online newspaper *Governance Course*

\*\*\*, (2021), ECB launches digital euro project to hit the market in 2025, in *Forbes Romania*

\*\*\*, (2021), Mugur Isărescu: Central Banks - 3 ways to integrate climate risks, in the online newspaper *Curs de Guvernare*

\*\*\*, (2021), The takeover of Monte dei Paschi di Siena by UniCredit seems increasingly unlikely, in *Forbes Romania*

\*\*\*, (2021), European Central Bank profit decreased by a third in 2020, in *Forbes Romania*