EUROPEAN COURT OF AUDITORS

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Press Release

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Auditors review how the EU's response to the 2008-2012 crises improved the resilience of the financial sector

The impact of the COVID-19 pandemic far exceeds that of the financial/sovereign debt crisis of 2008-2012, and the economic ripple effect is still ongoing. A 'smart recovery' will require us to learn from the last crisis and keep in mind the weaknesses identified. The European Court of Auditors (ECA) published its latest review today, taking stock of developments in the EU's economic and financial architecture over the past decade and flagging up unresolved challenges, potential risks and policy gaps.

The 2008-2012 global financial crisis, and the resulting economic and euro area sovereign debt crises, had long-term effects on growth and fiscal stability in the EU. Their effects were accentuated by weaknesses in the EU's financial system and by the inadequate policy tools, monitoring and regulatory environment, as well as by the incomplete institutional architecture of the euro area. The COVID-19 pandemic is currently testing the resilience of the EU's economic and financial architecture, in terms of both the size of the economic effect and the scale of the public response.

"We considered it important to take stock of EU responses a decade after the global financial crisis", **said Ivana Maletić, the ECA Member responsible for the review**. "*The economic shock of COVID-19 is far larger than that of 2008, but taking account of the lessons learned will help respond to the current challenges".*

In this review, which draws on previous audits and analysis by other relevant EU and international organisations, the auditors note that the EU's toolbox for dealing with financial crises has improved in recent years. The EU has established EU-level supervisors in the financial sector, tightened bank regulation and supervision, and created a framework for orderly bank resolution. These measures have helped to address some of the weaknesses present in banking supervision and resolution in 2009. Work also began on the Banking

The purpose of this press release is to convey the main messages of the European Court of Auditors' review. The full review is available at eca.europa.eu.

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Union and Capital Markets Union. However, the auditors also point out that the following challenges still remain:

- low profitability and resolvability of banks, high (albeit decreasing) level of nonperforming loans in certain Member States, and fragmentation of national insolvency laws for banks;
- potentially a more precarious financial system due to credit losses, depending on the duration and extent of the recession caused by the COVID-19 crisis;
- despite significant efforts to standardise supervision across Member States, conflicting national and EU interests are still not managed efficiently and regulatory arbitrage is an issue, as noted in previous ECA audits specifically relating to the EU supervisory authorities (EBA, EIOPA and ESMA);
- EU tools to detect systemic financial risks so far apply mainly to the banking sector, while the macroprudential framework for the insurance sector, pensions and non-bank financial intermediaries is less developed and remains under discussion at EU level.

The auditors also point out that if the EU wants to fulfil its ambitious objectives of protecting, supervising and strengthening its financial sector, it needs to assign appropriate budgetary and staffing resources, and that the Capital Markets Union and the Banking Union (still missing its third pillar) need to be completed.

Before the 2008 crisis, monitoring and control of public finances were weak, fiscal buffers were low in certain Member States, and economic policies were poorly coordinated at EU level. There are analogies with the situation in 2020, given the current risk of increasing economic divergence between Member States and of the COVID-19 crisis causing a severe deterioration in fiscal deficits and public debt as it exerts significant pressure on government spending and revenue. The auditors state that high pre-pandemic debt in a Member State increases its vulnerability and has an important bearing on its ability to deploy policies, aid businesses or provide general social support.

The steps taken toward overcoming the effects of the COVID-19 crisis on the EU's economies and finances are resulting in further institutional and policy responses. As noted in previous audits on EU fiscal policy coordination, economic governance at EU level is becoming increasingly complex, and rules are difficult to enforce, requiring great discretion and expert judgment from the Commission and Council, and far more effort from Member States to implement EU-recommended reforms.

Note to editors

According to the Commission's forecasts, EU GDP is expected to drop by 7.4 % in 2020 (7.7 % in the euro area), more than in any year during the 2008-2012 crisis. The EU is allowing temporary exemptions from State aid rules and activating the general escape clause of the Stability and Growth Pact to enable Member States to implement supportive business and fiscal policies without delay. The EU has also created new budgetary instruments to foster Member State recovery and safeguard the internal market and the stability of the euro. These include the €750 billion NextGenerationEU package and its cornerstone, the new Recovery and Resilience Facility, along with three safety nets worth €540 billion in total.

The ECA's review, "*How the EU took account of lessons learned from the 2008-2012 financial and sovereign debt crises*", is available in 23 EU languages on the ECA website (eca.europa.eu). A review is not an audit, but presents the facts surrounding a specific issue. This latest review provides information on the initial response to the COVID-19 crisis and complements other ECA work relating to COVID-19, including opinions on the Common Provisions Regulation (CPR), REACT-EU, the Just Transition Fund and the Recovery and Resilience Facility. Two reviews on the EU's contribution to policy response to COVID-19, concerning the public health and economic sectors, respectively, will be published shortly. Information on the measures the ECA has taken in response to the pandemic can be found here.

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