

The Missing Pieces of SME Lending

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Intervention of Francesco Papadia

...in short

1. The focus of policy making in the €area:

Crisis and demand
management



Supply and long term growth

2. Banks and capital markets



€-area economy growth

3. ABS market revitalisation



Necessary but not sufficient condition

3a. High Quality Securitisation

3b. Operationalize the concept of a HQS

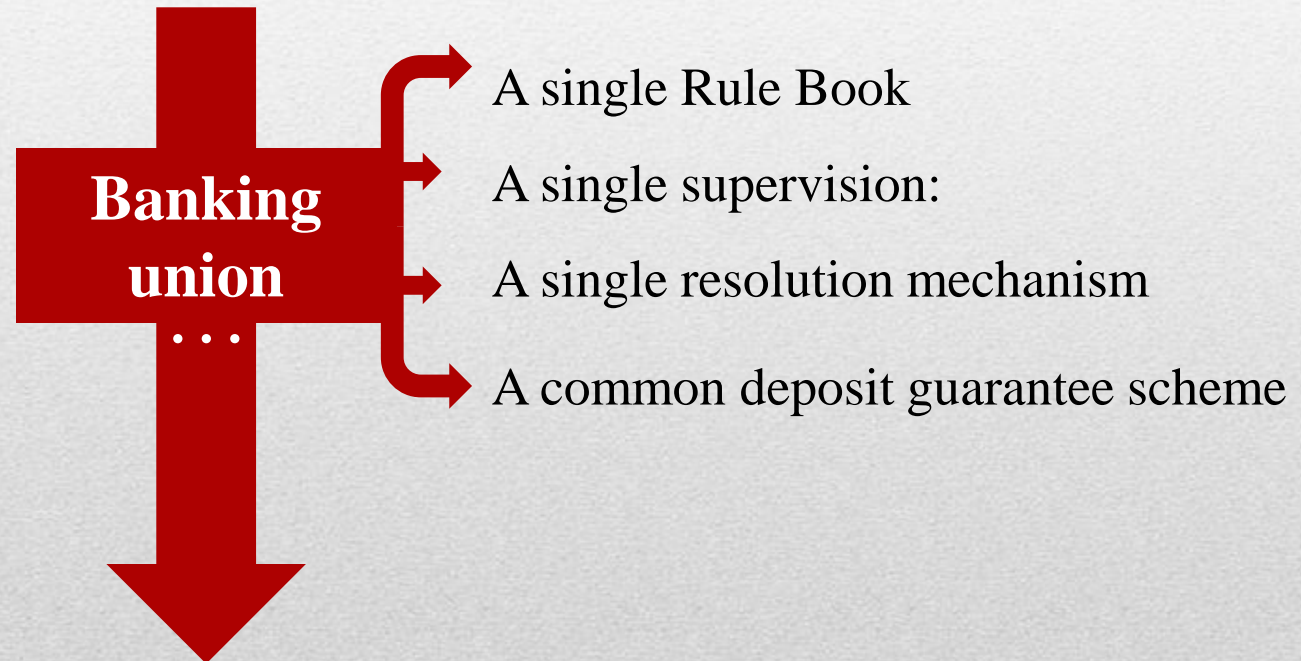
3c. Regulation of ABS market

The focus of policy making in the €area

“saving the €”

Crisis management

Japanification risk



Long term growth prospects

Banks and capital markets

**Banks set to suffer for a while longer from
crisis effects**



**Bank based financial
system**



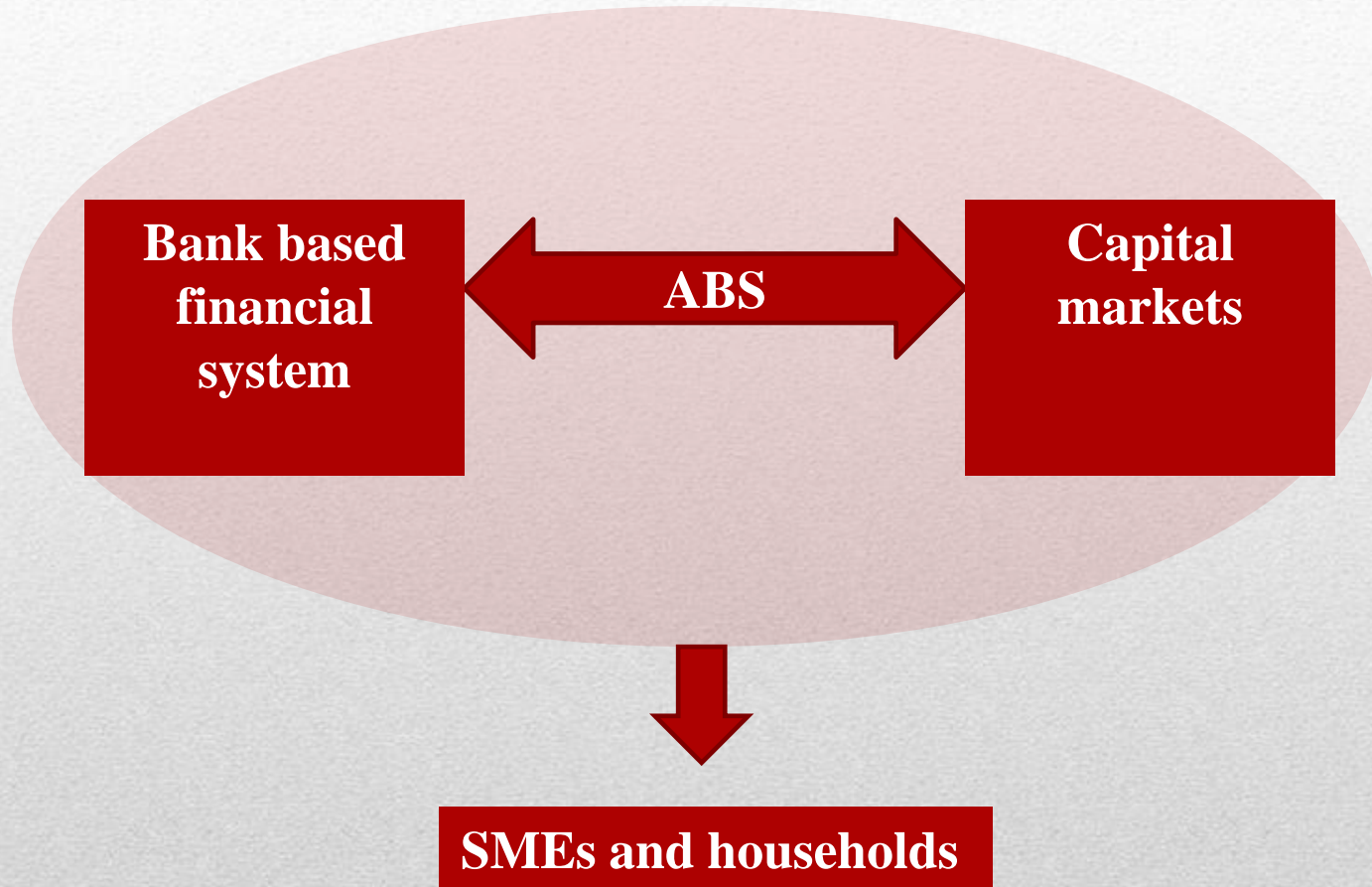
**Particular negative impact on SMEs and
households**



Danger vs. opportunity:

危机

ABS market revitalisation (I)




ABS market revitalisation (II)

a. High Quality Securitisation


Vs.

ABS nostalgia

b. PCS Label against:

- 
- No skin in the game
 - Leverage (re-securitization)
 - Embedded maturity transformation
 - Lack of transparency

c. Regulation of ABS market:
(Commission role)

- 
- Consistent across regulation sources
 - Consistent with HQS

- **My Blog:** <http://moneymatters-monetarypolicy.blogspot.com>
- **My Tweet:** [@FrancescoPapad1](#)

Initial slides

- Of course we are not of the crisis as yet
- Banking Union is unfinished business
- But the new risk is Japanification

1. The focus of policy making in the €area should move from crisis and demand management to supply and long term growth,

- even in the **most optimistic scenario**, the banking system will **suffer from the lingering effects of the crisis**
- **structural limitation** of the European economy, in particular of continental Europe: an **insufficient development**, as compared to the US, **of its capital market**.
- **Small and medium size enterprises and households** are the clear victims

2. Banks and the capital market are not in a position to fund an adequate growth for the €-area economy,

- **work the Commission** is doing to put the financial market on a better regulatory and structural footing to **progressively surpass the limitations** of a financial system with a weak market leg.
- **ABS** have the potential to act as a **bridge between the banking and the capital market**

3. A revitalised ABS market is not a solution to the insufficiency of the banking and capital market, but there cannot be an adequate solution without a revitalised <abs market,

- **a number of policy makers and regulators**, such as Mr. Barnier, the President and other members of the Executive Board of the ECB and the IOSCO show the increasing awareness of this crucial point

4. **we need is High Quality Securitization**, not just a re-launch of a generic ABS market.

- the problems with ABS Mark 1 will not reappear in HQS:
 - No skin in the game,
 - Leverage (re-securitization),
 - Embedded maturity transformation,
 - Lack of transparency.

5. Drawing lessons from the crisis we can operationalize the concept of a HQS,

- we need a holistic approach to the different pieces of regulation affecting the ABS market.
- the Commission is crucial as the sole institution that can help the different regulators to pull their action together and come to consistent approaches, recognizing the difference between HQS from other types of securitization.

6. An operational definition of HQS must inform all different pieces of regulation impacting on the ABS market.
