

Press Release

Paris, 04 December 2023

On Monday 4 December, the *Haut Conseil de stabilité financière* (High Council for Financial Stability – HCSF) held its 39th meeting, chaired by Bruno Le Maire, Minister of the Economy, Finance and Industrial and Digital Sovereignty.

The HCSF conducted an assessment of the risks and vulnerabilities in the French financial system. Since its last meeting, the European Central Bank's key rates have remained stable, as have financial conditions, which had tightened overall in previous quarters. The HCSF closely monitors the medium and long-term impact of these changes on the vulnerability of the most heavily-indebted non-financial players. The liquidity and solvency position of French credit institutions and insurance and reinsurance companies remained robust, with substantial capital margins. In the longer term, they should benefit from the normalisation of interest rates and appeared resilient to the current transition.

The HCSF also examined the risks associated with non-bank financial intermediaries (investment funds, insurance companies, money market funds and other financial intermediaries) and their interconnections with the French financial sector.

The HCSF noted that the slowdown in credit to the non-financial private sector mainly reflected the expected transmission of monetary policy, with higher interest rates reducing demand for credit, and stressed that this slowdown was less pronounced than in the main euro area economies. Outstanding bank loans to businesses rose by 2.1% in October, driven by strong investment lending, while bond debt recovered slightly. The growth in outstanding loans to households continued to slow to a rate of 1.8% in October. The HCSF noted that households, like businesses, enjoyed a favourable debt structure, due to the fact that most of their debt was at fixed rates, which meant that the impact of rising interest rates on borrowers affected them more gradually.

In particular, the HCSF closely examined housing credit developments. New housing loans (excluding renegotiations) stood at EUR 9.2 billion in September 2023, down sharply on its peak of 2022: This trend is consistent with the fall in the number of transactions and the wait-and-see attitude prevailing as property prices gradually adjust to the new interest rate conditions. The HCSF will continue to monitor these changes and their potential impact on financial stability.

The use of the flexibility margin remains well below its limit of 20%, at 14.3% in the third quarter of 2023. The HSCF will continue to monitor the proper use of these flexibility margins and will carry on publishing detailed figures on this subject on its website.

In accordance with the intent it had announced at the previous meeting, the HCSF decided to make three technical adjustments to the measure, taking note of certain operational difficulties

in the use of derogations and of market dynamics, in compliance with financial stability requirements.

It specified that the flexibility granted to the ACPR at the June meeting, in terms of its assessment of compliance with the rule, applied to the allocation limits within the 20% flexibility margin as well as to the overall 20% margin. In the event of a limited breach in one quarter, the ACPR may consider that compliance with these limits for overall new lending for that quarter and the following two quarters constitutes appropriate and sufficient corrective action.

In addition, the HCSF decided to allow credit institutions to exclude the interest payments on bridge loans when assessing the borrower's DSTI ratio, provided that the bridge loan's loan-to-value ratio is sufficiently conservative, i.e. less than or equal to 80% of the value of the marketed property.

Lastly, in order to foster energy renovation work, the HCSF decided to lower the threshold for renovation work above which house buyers are allowed to defer their loan repayments to 10% of the total cost of the operation.

Consequently, the HCSF adopted a decision amending Decision D-HCSF-2021-7 of 29 September 2021, which will be published in the *Journal Officiel de la République Française* and on the HCSF website.

Furthermore, the HCSF supports the introduction by the FBF of a procedure allowing creditworthy households that have been denied a housing loan to have their application reconsidered.

The HCSF decided to apply by reciprocity the macroprudential measure adopted by the Banque Nationale de Belgique, lowering the systemic risk buffer rate applied to retail exposures (individuals) backed by a property located in Belgium.

Lastly, the HCSF considered that prevailing economic and financial conditions did not justify changing the countercyclical capital buffer rate, which is currently set at 0.5% and will be raised to 1% as from 2 January 2024, as announced in its December 2022 meeting. In the light of current circumstances, the HCSF considered that the protection afforded by this buffer was adequate and that its rate did not need to be raised in the coming quarters.