

## Press release

Paris, 7 March 2023

On Tuesday 7 March 2023, the *Haut Conseil de stabilité financière* (HCSF - High Council for Financial Stability) held its 36th meeting, chaired by Bruno Le Maire, Minister for the Economy, Finance and Industrial and Digital Sovereignty.

The HCSF conducted an assessment of the risks and vulnerabilities affecting the French financial sector, marked by the continued normalisation of monetary policies and a relative stabilisation of financial conditions. Since the last meeting, market interest rates have risen again in the euro area, reflecting, in particular, the increase in key interest rates and expectations that this increase would continue as inflation remained high. However, equity and bond markets continued to respond in an orderly fashion to this new environment.

The HCSF also examined the consequences of the rising interest rates for French banks and insurance companies. In a context where the French banking system has shown great resilience (in terms of both solvency and liquidity) in the face of the health and energy crises, the HCSF considers that the new interest rate environment should, on the whole, benefit the banking sector through a gradual improvement in net interest margins. This increase in net interest margins should be able to absorb any rise in the cost of risk if the economic situation were to deteriorate. As regards insurance and reinsurance companies, the HCSF has noted that the sector as a whole has held up well, with the rise in interest rates strengthening solvency despite a negative effect on the valuation of bond portfolios. Overall, the HCSF has noted the resilience of the financial sector, and hence of the financing it provides to the economy.

The HCSF notes that lending to the private non-financial sector remains robust in France, despite a slight slowdown: debt of non-financial corporations (NFCs) is continuing to grow at a sustained rate (up 4.3% year-on-year in December 2022), driven by bank lending (up 7.4% year-on-year in December 2022), as do housing loans to individuals (up 5.5% year-on-year in December 2022). The interest rates associated with these loans are rising, but less sharply than on markets: 3.2% in December for new loans to NFCs and 2.1% in December for new housing loans to households. As a result, debt-to-GDP levels have stabilised at high levels compared with other European countries: in the third quarter of 2022, French households' gross debt amounted to 66% of GDP and that of NFCs stood at 81%, compared with 58% and 61% respectively in the euro area. In this environment of rising interest rates, the HCSF highlights that businesses and households are offered protection in the form of a preponderance of fixed rate loans. It will continue to closely monitor the evolution of financing conditions for businesses and households.

While the risks associated with household debt are considered under control given the existing macroprudential measures and the characteristics of household debt in France, the HCSF is monitoring closely the risks associated with corporate debt and, in particular, is calling on credit institutions to remain vigilant with regard to their exposure to the most highly indebted large companies. It notes that the so-called Large Exposures measure (Decision D-HCSF-2018-2 of 11 May 2018), which was extended for two years on 30 June 2021, will soon come to an end and that it is necessary to continue to regulate these exposures. To replace this measure, it is examining the introduction of a proportionate capital surcharge measure to be implemented as a sectoral buffer.

The HCSF has taken note of the monitoring by the Autorité de contrôle prudentiel et de résolution (ACPR) of compliance with its decision on lending practices, which came into force on 1 January 2022. Overall, compliance has been quite satisfactory. The ACPR has informed the HCSF of the supervisory measures taken in the few cases of non-compliance noted in the allocation of this flexibility towards the financing of primary residences.