

Press release

Paris, 27 June 2022

On Monday 27 June 2022, the *Haut Conseil de stabilité financière* (HCSF - High Council for Financial Stability) held its 33rd 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, based on the half-yearly Assessment of Risks to the French Financial System (ERS), prepared by the Banque de France and to be published on 30 June. As a result of the sharp rise in commodity prices, the economic environment is marked by inflationary pressures and a weakening of growth prospects, which nevertheless remain positive. In this context, the normalisation of monetary policies and of the resulting level of interest rates in the euro area and the rest of the world constitute a major development in the French financial environment.

Rising market interest rates and geopolitical risks are weighing on equity markets (the S&P 500 has dropped by 13% and the CAC 40 by 7% since the last HCSF meeting) and on European corporate bond spreads, which are widening (up 146 bp for the highest-rated issuers, up 250 bp for speculative grade issuers). A sharp correction in cryptoasset markets has also been observed in recent weeks, including for certain "stablecoins" whose shortcomings and potential risks have become clearly apparent, underlining the importance of better supervision of these assets as provided for by the draft European MiCA regulation. Overall, since the HCSF's previous meeting, the risks to financial stability have remained high but under control.

The HCSF considers that while inflation and rising interest rates will have a differentiated impact on households, solvency risks are relatively low at this stage thanks to a resilient labour market and the prevalence of fixed-rate loans in France. Corporate financing conditions have deteriorated and access to the bond market has tightened, especially for the lowest-rated companies, but credit supply remains robust. The soundness of balance sheets in the wake of the health crisis should contribute to the resilience of the banking sector. Public debt remains sustainable. For their part, financial players must adjust their strategy to the new financial conditions, as their portfolios valued at market prices have been affected. However, in the medium term, the rise in interest rates should be a positive factor for banks, whose solvency and liquidity situation is sound. Finally, without neglecting the possibility of reallocations within life insurance or to other investments, insurers, whose solvency and liquidity situation is good, are in a position to cope with the changing financial environment.

The HCSF notes that lending remains robust in France: bank lending to businesses is continuing to rise (up 5.5% year-on-year in April) as are housing loans to individuals (up 6.8%). Moreover, growth in real estate prices is still strong (up 7.3% in France in the first quarter of 2022), although more contained than in neighbouring countries (up 9.6% on

average in the euro area in 2021). Debt levels in relation to GDP have stabilised at high levels compared with other European countries: at the end of 2021, household debt amounted to 66% of GDP and that of NFCs stood at 83%, compared with 60% and 64% respectively in the euro area.

Given the strong cyclical and geopolitical uncertainty, and despite the high level of risk, the HCSF has decided to keep the countercyclical capital buffer rate at 0.5%. It will reexamine this decision at its September 2022 meeting. The HCSF calls on institutions to maintain a sufficient level of capital in any case, in order to preserve their capacity to finance the economy in all phases of the economic cycle.

The ACPR has informed the HCSF of the implementation of active macroprudential measures. The HCSF has noted the improvement in real estate lending practices (decision D-HCSF-2021-7): all institutions are complying with the 35% debt to income ratio and 25-year maturity standard, which came into force on 1 January 2022. They are also complying with the targeting of the flexibility margin on first-time buyers. The HCSF remains very vigilant about compliance with the measure, including the use of the flexibility margin. Maintaining this measure guarantees the robustness of our housing financing model. The monitoring of bank exposures to highly indebted companies as defined by the measure D-HCSF-2021-6 does not call for any comments, as no exposure thresholds have been exceeded.