

Press Release

Paris, 15 September 2022

On Thursday 15 September, the *Haut Conseil de stabilité financière* (High Council for Financial Stability – HCSF) held its 34th meeting, chaired by Bruno Le Maire, Minister of the Economy, Finance and the industrial and digital sovereignty.

The HCSF conducted an assessment of the risks and vulnerabilities in the French financial system, marked again by significant volatility on the financial markets. This volatility is associated with the war in Ukraine, impacting markets and commodity prices and thus contributing to inflationary dynamics and a decline in the growth outlook. The action of the European Central Bank (increases in key interest rates of 50 basis points in July and 75 basis points in September) in order to curb inflation is part of monetary policy normalisation and the rise in the level of interest rates in France and the euro area. At this juncture, markets are reacting in an orderly fashion to this new interest rate environment. The HCSF will remain vigilant as to the financing capacity of households and non-financial corporations (NFCs) in this new environment but considers that the risks to financial stability, although high, remain contained. Rising interest rates should be a positive factor for insurers and banks, which have a strong solvency and liquidity position. It should contribute to the resilience of the financial sector and hence its lending capacity to the economy.

The HCSF notes that credit growth to the non-financial private sector remains robust in France: bank lending to NFCs and housing loans to households are continuing to grow at a sustained rate, up 7.0% year-on-year in July 2022 and 6.4% respectively. Interest rates on these loans are rising, but only moderately: 1.42% in May for new loans to NFCs and 1.45% in July for new housing loans, i.e. increases of 43bp and 33bp respectively since the beginning of the year. Thus, the debt to GDP ratio is stabilising at high levels, above those of other European countries: French household debt represents 66% of GDP and that of NFCs 82%, compared with 59% and 63% respectively in the euro area. Furthermore, house prices are still rising domestically (up 6.8% year-on-year in the second quarter of 2022), albeit at a slower pace than in neighbouring countries (up 9.8% year-on-year in the euro area in the first quarter of 2022).

In its press release following its meeting on 27 June, the HCSF called on institutions to maintain a sufficient level of capital, in order to preserve their capacity to finance the economy in all phases of the economic cycle. Today, the HCSF decided to leave the countercyclical capital buffer rate for banks unchanged at 0.5%. However, given the persistent vulnerabilities, and the level of risks in the medium term, the HCSF deemed it necessary to enhance preventive measures to avoid the risk of a turnaround in the credit cycle. It therefore plans to raise the countercyclical buffer for banks at its next meeting from 0.5% to 1.0%, unless the banking system's capacity to meet the financing needs of the economy were to deteriorate markedly and unexpectedly. All the institutions concerned already have the capital to meet this requirement. Due to its countercyclical nature, this preventive capital buffer can be loosened immediately by the HCSF in the event of the materialisation of a risk that justifies it: it thereby preserves the

sustainable provision of credit to the economy, and more particularly to households and small and medium-sized enterprises, which, among non-financial corporations, are the most dependent on bank financing.

The HCSF also reviewed the latest figures for compliance with its decision on credit standards, which came into force on 1 January 2022. It is well respected: new lending not complying with the credit standards set out in the decision stood at 13.7% before the application of the 20% flexibility margin in the second quarter of 2022. However, progress on allocating this flexibility to the financing of main residences and first-time buyers remains to be made: the *Autorité de contrôle prudentiel et de résolution* has informed the HCSF of supervisory measures against non-compliant institutions.

Following the recommendations of the European Systemic Risk Board issued on 16 February 2022, 30 March 2022 and 2 June 2022, the High Council took reciprocal decisions for four decisions, taken by the Banque nationale de Belgique (BNB), De Nederlandsche Bank (DNB) and Lietuvos Bankas - the central banks of Belgium, the Netherlands and Lithuania respectively - and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin).