

Press Release

Paris, 24 March 2022

On Thursday 24 March, the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) held its 32nd meeting, chaired by Bruno Le Maire, Minister of the Economy, Finance and the Recovery.

The HCSF conducted its assessment of the risks and vulnerabilities in the French financial system, marked recently by the conflict in Ukraine and the sanctions imposed on Russia. It is closely monitoring the evolution of the associated risks and notes that, at this stage, their impact remains contained as the direct exposure of French banks, insurers and funds to Russia and Ukraine is limited. It nonetheless considers that the risks to financial stability have increased in the short and medium term.

In the short term, the HCSF considers that the environment remains highly uncertain. It also notes that the financial system has so far proved resilient, despite the strong volatility in securities markets and, even more so, commodity markets since the start of the conflict, which has triggered significant margin calls. The HCSF is paying very close attention to these trends. It is also closely monitoring cyber risks, the threat of which is increasing in the current context. The HCSF asks all stakeholders in the industry to be extremely vigilant in this area.

In the medium term, the HCSF estimates that the conflict could have an indirect effect on the financial system via its macroeconomic consequences, both for the outlook for growth and for the trajectory of prices. The sharp jump in energy prices and uncertainty in commodity markets are exacerbating the inflationary pressures that were already present before the conflict, and market interest rates are rising, albeit from historical lows. This, combined with the revisions to growth forecasts and to exposures to Russia, in part explains the correction already observed in financial markets and especially in banking stocks.

However, financing conditions remain favourable, in terms both of volumes and of rates (nominal and real), and this is continuing to support borrowing in the private non-financial sector. In the third quarter of 2021, household debt amounted to 66% of GDP, while non-financial corporation (NFC) debt stood at 82% of GDP (consolidated NFC debt). Bank lending to NFCs is continuing to rise (growth of 4.1% year-on-year in January 2022) as is the volume of housing loans to individuals (growth of 6.4%). The interest rates on these loans remain very favourable (1.24% and 1.12% respectively in January for new loans to NFCs and new housing loans to individuals).

The HCSF considers that the persistent vulnerabilities, especially linked to non-financial sector debt, and the nature of the short and medium-term risks warrant the use of preventive measures at least equivalent to those in place before the Covid-19 pandemic in order to address the financial risks. As announced following its session of 14 December 2021, the HCSF has therefore decided to raise the countercyclical capital buffer rate for banks to 0.5%. All credit institutions concerned already have sufficient capital to meet this requirement.

This draft decision will be notified to the ECB for non-objection. The banks will be given 12 months to comply with the new requirement. The decision will be published in the *Journal Officiel de la République Française* and on the HCSF website.

Moreover, under the principle of automatic and mandatory reciprocity, the HCSF's countercyclical buffer shall also apply to all banks in the European Union and European Economic Area, in proportion to the size of their exposures in France.

The HCSF also reviewed the recent developments in the residential real estate market. The HCSF's decision on lending conditions, which came into force on 1 January 2022, has been complied with and has had no undesirable effects. Property prices are currently rising at a strong rate, but loans are being granted on healthier terms.

Finally, prior to the session, the HCSF validated its response to the European Commission consultation on the macroprudential framework.