

Press release

Paris, 13 December 2022

On Tuesday 13 December, the *Haut Conseil de stabilité financière* (High Council for Financial Stability – HCSF) held its 35th 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 affecting the French financial system, marked by the repercussions of the energy crisis, the further normalisation of monetary policies and a relative stabilisation of financial conditions. Since the last meeting, market interest rates have risen in both the euro area and in France, reflecting the increase in key interest rates and market participants' expectations of further increases. At this stage, financial markets continue to respond in an orderly fashion to this new environment, despite some episodes of localised and occasional tensions.

The HCSF also examined the vulnerabilities associated with the leveraged debt of French non-bank financial institutions, which remain under control. The French financial system could nonetheless be exposed to a risk of contagion, via financial markets, of tensions stemming from non-resident non-bank financial institutions, which are often less regulated. The HCSF notes that these vulnerabilities may be difficult to measure and supports the regulatory initiatives aimed at strengthening the resilience of these institutions and improving the transparency of these exposures. The HCSF will remain particularly attentive to these vulnerabilities and calls on these institutions to maintain a prudent level of leverage and to adapt their risk management to the macroeconomic and financial environment.

The HCSF notes that credit growth to the non-financial private sector remains robust in France: the debt of non-financial corporations (NFCs) is continuing to grow at a sustained pace, up 4.9% year-on-year in October 2022, driven by bank lending, up 8.6% year-on-year in October 2022, as does housing loans to households, up 5.9% year-on-year in October 2022. Interest rates on these loans are rising, significantly but to a lesser extent than market rates: 2.5% in October for new loans to NFCs (below the 2.7% rate observed in October on average in the euro area) and 1.8% in October for new housing loans to households (well below the 2.7% rate observed in October on average in the euro area), i.e. increases of 121 basis points and 67 basis points respectively since the beginning of the year. Thus, the debt-to-GDP ratios are stabilising at high levels, above those in other European countries: French households' gross debt represents 66% of GDP and that of NFCs 82%, compared with 59% and 61% respectively in the euro area. Furthermore, residential house prices are still rising domestically (up 6.4% year-on-year in the third quarter of 2022), albeit at a slower pace than in neighbouring countries (up 9.3% year-on-year in the euro area in the second quarter of 2022). The HCSF will remain vigilant as to the financing capacity of households and businesses in this new environment, but considers that the risks to financial stability remain high. In the medium term, however, the rise in 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, of the financing services it provides to the economy.

In its press release following its meeting on 15 September, the HCSF announced its intention to raise the countercyclical capital buffer (CCyB) rate for banks "*unless the banking system's capacity to meet the financing needs of the economy were to deteriorate markedly and unexpectedly*". Since then, the banking system and the economy have proved to be resilient. Given the persistence of medium- and long-term financial risks and, as a result, the risk of a turnaround in the credit cycle, the HCSF deems it necessary to strengthen banks' solvency position and thus increase this credit protection reserve (CCyB). As announced following its meeting on 15 September, the HCSF therefore decided to raise the countercyclical capital buffer rate for banks to 1.0%. It does not plan on any further increase in the next twelve months. All the institutions concerned already have sufficient capital to meet this requirement, which will take effect on 2 January 2024.

In line with its protective role, this reserve, which is set up as a preventive measure, can be released immediately by the HCSF in the event of the materialisation of a risk that could significantly affect the supply of credit: it thereby preserves the sustainable supply 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. More generally, the HCSF calls 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.

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

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

The HCSF also reviewed the latest figures for compliance with its decision on credit standards, which came into force on 1 January 2022. This decision is well respected. However, some institutions still need to make progress in allocating this flexibility to the financing of main residences and first-time buyers: the *Autorité de contrôle prudentiel et de résolution* (ACPR) has informed the HCSF of supervisory measures against non-compliant institutions.