HCSF

Haut Conseil de Stabilité Financière

# Press Release

Paris, 13 June 2023

On Tuesday 13 June, the *Haut Conseil de stabilité financière* (High Council for Financial Stability – HCSF) held its 37th meeting, chaired by Bruno Le Maire, Minister of the Economy, Finance and the industrial and digital sovereignty.

The HCSF conducted its assessment of the risks and vulnerabilities in the French financial system. Since its last meeting, key rates have been raised by 75 basis points, but long-term interest rates have fallen slightly. Despite episodes of tension, particularly in the banking sector in the United States and Switzerland, the financial markets have remained relatively orderly and financial conditions have stabilised.

The HCSF observed that French banks proved resilient during the stress observed in March. They benefited from strong capital and liquidity positions, robust business models, and diversified exposures and sources of funding. This resilience was underpinned by the quality of banking supervision under the aegis of the European Single Supervisory Mechanism. As regards insurance and reinsurance institutions, the HCSF also noted that the sector as a whole is holding up well and believes that its fundamentals should enable it to adapt to the new macroeconomic and financial environment.

Notably in response to the Recommendation of the European Systemic Risk Board (ESRB), the HCSF examined the vulnerabilities of the commercial property sector, which has seen a decline in transaction volumes and a correction in property prices in certain segments. In contrast, it also observed certain factors of resilience. The HCSF introduced a number of indicators to monitor the commercial property market and will continue to assess these risks closely, in particular through an in-depth analysis at its next meeting.

The HCSF noted that credit to the non-financial private sector remains resilient in France. While the HCSF is stepping up its vigilance with regard to the implications of rising interest rates for heavily-indebted economic players, it also noted that these situations were generally managed with caution and stressed the protection offered to businesses and households in this interest rate environment by the fact that the majority of loans were granted to them at fixed rates. It will continue to closely monitor developments in financing conditions for businesses and households.

In its press release following its meeting on 7 March, the HCSF stated that it was examining the "introduction of a proportionate capital surcharge measure to be implemented as a sectoral buffer", as a replacement for the so-called "Art. 458 Large Exposures" measure (Decision No. D-HCSF- 2018-2 of 11 May 2018). The HCSF confirmed its intention to introduce a sectoral systemic risk buffer of 3% on the exposures of French systemic banks to large, heavily-indebted French companies, if these exposures exceed 5% of their capital.

In line with the ECB's definition of highly leveraged transactions, a large firm is considered highly leveraged when its total debt to EBITDA ratio exceeds 6 or is negative. This draft decision will be notified to the ECB for non-objection and to the ESRB. The decision will be published in the *Journal Officiel de la République Française* and on the HCSF website, and will enter into force in early August.

The HCSF recalled that Decision D-HCSF-2021-7 of 29 September 2021 on lending standards for housing loans is intended to contain a possible deterioration in lending standards against a backdrop of normalising interest rates, and thus to mitigate the risks to financial stability by making housing loans more secure: the measure contributes to the robustness of the French model of housing financing by preventing an increase in the credit risk of borrowing households. Moreover, France still has the lowest interest rates on housing loans of the major European countries and one of the highest levels of production of new housing loans.

The HCSF also reviewed the latest figures for compliance with the decision, which all institutions have met. Non-compliant new lending stood at 13.8% in the first quarter of 2023, out of a maximum flexibility margin of 20%.

Noting certain operational difficulties encountered by banks in implementing this measure, the HCSF decided to make two technical adjustments that do not alter the overall structure or scope of the measure.

Accordingly, in view of the seasonal nature of some transactions and in order to facilitate the operational management of the measure by the banking networks, the HCSF considered that, following a limited breach in one quarter of one or other of the lending limits under the 20% flexibility margin provided for in Article 2 of Decision D-HCSF-2021-7 of 29 September 2021, the ACPR may consider that compliance with these limits for overall new lending for that quarter and the following two quarters constitutes appropriate and sufficient corrective action.

Moreover, in view of the effective take-up of flexibility for purchases of main residences and given the ongoing structural changes in the property market, the HCSF decided to make a second technical adjustment within the total flexibility margin of 20%. It raised from 20% to 30% the proportion of this flexibility margin that can be used freely, thus providing additional leeway for buy-to-let investment. This change does not affect first-time buyers, whose 30% share of the flexibility margin remains unchanged, or other buyers whose share was not fully used. The HCSF stressed that lending standards must contribute structurally to the security of housing loans.

Consequently, it adopted a decision amending the second paragraph of Article 2 of Decision D-HCSF-2021-7 of 29 September 2021, which will be published in the *Journal Officiel de la République Française* and on the HCSF website.

Lastly, the HCSF considers that prevailing economic and financial conditions do not justify changing the rate of the countercyclical capital buffer, which is currently set at 0.5% and will be raised to 1% as from 2 January 2024.