EUROPEAN CENTRAL BANK

EUROSYSTEM

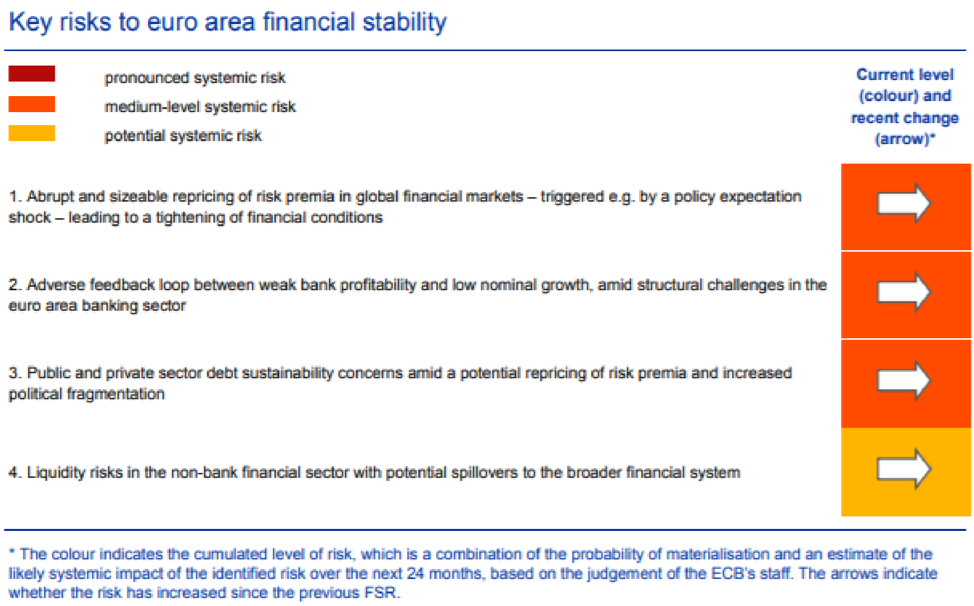
DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

MACROPRUDENTIAL POLICIES AND FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, THURSDAY 15 MARCH 2018

MEETING SUMMARY

1) Introductory presentation by the ECB



ECB staff presented the ECB’s views on the risks and vulnerabilities for euro area financial stability as published in the ECB’s November 2017 Financial Stability Review.

Regarding these risks, MFCG members were concerned most about the risk of repricing in global financial markets and least about bank profitability.

2) Market developments since the September 2017 MFCG meeting

Members discussed the financial stability outlook, including the return of volatility in February. They agreed that the episode was mainly technical in nature and had not had a discernible impact on other asset classes. It might, however, reflect the beginning of a period of higher volatility, which could push asset prices lower. In addition, market participants might have become overly optimistic during the prolonged low volatility environment, contributing to a higher risk appetite and greater risk taking. The search for yield had led to distortions in some market segments, with lower-rated debt securities’ and US equity valuations appearing stretched by historical standards.

3) Developments in the corporate sector

Members discussed risks to financial stability related to developments in the euro area (non-financial) corporate sector. They highlighted (i) the migration of exposure to corporates from the banking sector to non-banks with the response of non-bank credit providers in times of market stress being less known than for banks; and (ii) potentially greater credit losses in the future owing to weaker creditor protection, which is likely to translate into lower recovery rates. Members noted that in Europe and in the United States, investment grade and high yield corporate leverage had increased in recent years, leaving corporates with less flexibility and at risk of rating downgrades should macroeconomic conditions worsen. Members agreed that risk taking in the corporate sector reflected the wider reach for yield across various markets and instruments.

4) Technology in the financial system

Members discussed opportunities and risks related to technology in the financial system. As for opportunities, members highlighted efficiency gains from digitalisation for the banking sector. However, the investment costs necessary to reap the full benefits might be out of reach for smaller institutions. Regarding risks, members argued that cyber-attacks, particularly those aimed at systemic institutions and infrastructures, were a significant threat. Such risks could become systemic, especially where interconnectedness was high and when industry participants were relying on the same technology. Moreover, there were concerns over many institutions' preparedness to face such threats.