



DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, WEDNESDAY 13 MARCH 2019

MEETING SUMMARY

1) Introductory presentation by the ECB

ECB staff presented the ECB's assessment of the risks and vulnerabilities for euro area financial stability as published in the November 2018 Financial Stability Review.

FSCG members were most concerned about the risk of repricing in global financial markets while perceived risks stemming from hampered bank intermediation capacity had increased since the last meeting in October 2018.

2) Market developments since the October 2018 meeting

Members discussed the financial stability outlook after the turbulence in financial markets in the fourth quarter of 2018, which affected equity and credit markets. Members pointed to the role of monetary policy communication in the US, the slowdown in economic growth, and trade tensions. According to some members, this episode had been exacerbated by illiquidity in financial markets.

Vulnerabilities in corporate credit markets are perceived as the weak link in the outlook for financial stability. However, corporate sector fundamentals have so far not deteriorated significantly. It was also noted that a low-for-long environment may drive increased risk-taking, potentially raising the likelihood of a build-up of asset price bubbles. Members also discussed geopolitical risks, including the trend towards de-globalisation, which provides a less supportive environment for financial stability.

3) Outlook for the European banking sector

Members were of the view that the European banking sector may face more challenging funding conditions going forward. In particular the implementation of MREL requirements further increases banks' need to tap wholesale debt funding markets. This has the potential to compress margins and revenues. In addition, the cyclical slowdown in the euro area economy could exert

downward pressure on European banks' profitability. There were diverging views on the implications of a prolonged period of low interest rates for the medium-term profitability of the European banking sector. Members argued for the need for more consolidation efforts in the sector to increase profitability but also highlighted the impediments to such consolidation.

4) Implications of climate change for the financial system

Members saw climate change as an important risk to economic growth and financial stability. Whereas the physical risk side was seen as most tangible for insurance companies in particular, risks related to the transition to a low-carbon economy were considered more important for banks and asset managers, and not sufficiently understood at this juncture. Financing the transition towards a low-carbon economy was also seen as bearing strategic opportunities for the financial industry. But pricing of both risks and opportunities is challenged by significant data gaps. Some members expressed the view that authorities have an important role for increasing data availability on climate-related risks.