

Press release

Paris, June 11, 2018

The High Council for Financial Stability (HCSF) met for its seventeenth meeting on Monday 11 June 2018.

Chaired by Bruno Le Maire, Minister for the Economy and Finance, the High Council updated its diagnosis of the risks and potential vulnerabilities which may affect the French financial sector, in particular in the light of developments that occurred since its last meeting in March 2018.

In line with the preventive nature of macroprudential policy and given the favorable macroeconomic context and the continued acceleration of the financial cycle, the High Council has approved the proposal of the Governor of the Banque de France, François Villeroy de Galhau, to raise the counter-cyclical capital buffer rate to a moderate level of 0.25%.

The High Council takes note of the Banque de France's and the Stability Programme's forecasts, which anticipate strong economic growth for France, above its potential in the coming years, while also highlighting vigilance around the factors of economic and political uncertainty that could put growth at risk.

The HCSF also notes that the risk of a repricing of risk premia in the financial markets has increased, in a context of growing market valuations, suggesting a high risk appetite.

In addition, the High Council observes that the non-financial private sector indebtedness continued to grow and reached 130.2% of GDP in the fourth quarter of 2017 (58.4% for households and 71.8% for non-financial corporations, NFCs). The dynamics experienced in recent years contrast with the one of the other economies in the euro area and has led France to a level of indebtedness that is now above the average of the euro area and above the level of our main partners.

For NFCs, this increase in indebtedness was driven by the increase in market debt, but also by bank lending, which increased by +5.1% year-on-year in April 2018. Credit growth relates to companies of all sizes.

In this context, the HCSF on 11 May 2018 adopted a macroprudential measure that aims at limiting French systemic banks' exposures to the most indebted NFCs resident in France to a level of 5% of their eligible capital.

Since its meeting in March 2018, the High Council has conducted a series of interviews with market participants in order to analyze the dynamics of Leverage Outs, and more generally operations within Leverage Finance. These markets have strongly grown in recent quarters.

The High Council notes that this development is combined with an easing of contractual clauses and a strong appetite for risk among investors.

Household credit is also increasing at a sustained pace: +5.7% year-on-year in April 2018 with outstanding amounts mainly driven by housing loans. Residential property prices are also rising (+3.9% at a national level in the fourth quarter of 2017) and this evolution is combined with some easing of the credit granting conditions. At this stage, the High Council considers that the related credit risks are spread out in view of the terms and conditions of the loans for house purchase, mostly granted at a fixed rate and combined with a guarantee scheme. It remains vigilant regarding any change to credit granting conditions, particularly to the effect of the housing loans production on the balance sheet structure of banks.

Based on these developments which confirm the diagnosis from its previous meetings where it has stood ready to act since a few quarters, the High Council has approved, in a preventive spirit the proposal of the Governor of the Banque de France to raise the countercyclical capital buffer rate to a level of 0.25%. Banks will have 12 months from 1 July 2018 to comply with the new requirement.

According to its countercyclical nature, this capital buffer preventively activated is designed for being used in case of a cycle reversal. Its subsequent release will enable banks to mobilize this additional capital reserve in such circumstances to maintain their credit supply, notably to small and medium sized firms, which rely most on bank financing.

This draft decision will be notified to the ECB for non-objection. If it be so, it will be adopted before the 1st of July 2018. This decision, together with the justifications for the buffer rate will be published on the HCSF website as well as in the *Official Journal of the French Republic*.

Moreover, given mandatory and automatic reciprocity, the countercyclical capital buffer rate set by the HCSF shall apply to all banking institutions in the EU and the EEA, on their relevant credit exposures located in France with an equivalent rate.

In addition, the High Council adopted its annual report to the Parliament at the end of its fourth year of existence and decided to publish it in due course.