

## Press release

Paris, March 18, 2019

The High Council for Financial Stability (HCSF) met for its twentieth meeting on March 18, 2019.

Chaired by Bruno Le Maire, Minister for the Economy and Finance, the High Council updated its diagnosis of the risks and potential vulnerabilities that may affect the French financial sector.

It duly notes the revised downward growth prospects at international and European level, while acknowledging that growth in France is proving resilient. In addition, it observes the persistence of cyclical and political uncertainty in Europe, emerging countries and the United States, and closely monitors their potential consequences for growth and financial stability.

The High Council considers that, in the financial markets, the risk of a repricing of financial assets remains at a high level. As the adjustment at the end of last year has been compensated at the beginning of the year, equity and bond markets continue to exhibit strong valuations, in line with a low interest rate environment and a significant risk appetite.

The High Council also observes that the non-financial private sector indebtedness continued to grow and reached 133.3% of GDP in the third quarter of 2018 (59.2% for households and 74.1% for non-financial corporations, NFCs). The dynamics observed in recent years has led France to a high level of non-financial private sector indebtedness, which is now above the average of the euro area and above the level of our main partners.

For NFCs, this increase in indebtedness remained significant (+6.0% year-on-year in January 2019), driven by the increase in both bank credit and market debt outstandings. Credit growth relates to companies of all sizes, with bank credit to SMEs still growing at a robust pace (+6.3% year-on-year in December 2018).

Outstanding household loans also continued to increase at a sustained pace: +5.5% year-on-year in January 2019, mainly driven by housing loans.

The continued trends observed since the activation of the countercyclical capital buffer (CCyB) in June 2018 has therefore led the High Council to adopt, as a preventive measure, the proposal of the Governor of the Banque de France to raise the rate of this buffer by 0.25 percentage point of risk-weighted assets on French exposures, to a level of 0.5%.

The HCSF considers this level as appropriate in the current juncture and specifies that it will relax the CCyB in the event of a reversal in the financial cycle, with immediate application. It would enable banks to mobilize this capital reserve to preserve their ability to provide credit, 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 April 2, 2019, and banks will have 12 months from this date to comply with the new requirement. This decision 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 European Union and the European Economic Area, on their relevant credit exposures located in France with an equivalent rate.

The High Council also updated its diagnosis of the risks associated with the withdrawal of the United Kingdom from the European Union. It noted the good preparedness of the entities supervised by the ACPR and the AMF, by means of the widespread implementation of appropriate individual contingency plans. The High Council took note of the measures taken at French and European level to ensure the continuity of the provision of financial services in the Union.

In this context, it remains vigilant and continues to promote cooperation and exchange of information between the institutions that its members represent.

Finally, the High Council deepened its diagnosis on developments in leveraged finance, which is considered pro-cyclical, and discussed the monitoring and vigilance measures to be considered, at national, European and international level.