



## **11 October 2011 – European Systemic Risk Board publishes recommendations on lending in foreign currencies**

Frankfurt am Main

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The European Systemic Risk Board (ESRB) has today published a set of recommendations on lending in currencies other than the legal tender of the relevant country (“foreign currency lending”) addressed to the Member States of the EU, their national supervisory authorities and the European Banking Authority.

These recommendations reflect financial stability concerns arising from foreign currency lending to the non-financial private sector. This phenomenon is currently present in EU countries to different degrees and has led in some cases to a build-up of substantial mismatches between the currencies in which the non-financial private sector receives its income and those in which it pays back loans, thus making it more vulnerable to unfavourable movements in the exchange rate.

High levels of foreign currency lending may have systemic consequences for the countries concerned as well as potential for cross-border contagion.

The recommendations cover borrowers without a natural or financial hedge and address the risks identified by the ESRB. For credit and market risk, the recommendations are intended to limit the probability and consequences of such risks materialising by increasing the resilience of the financial system and ensuring the creditworthiness of new borrowers. It is also recommended that, borrowers be given the appropriate information to make well-informed decisions. Moreover, credit institutions should properly incorporate foreign currency lending risks into their internal risk management systems, which in turn is expected to contribute to improved risk pricing.

Regarding excessive credit growth induced by foreign currency lending and the possibility of the emergence of asset price misalignments, national authorities are recommended to further tighten their rules on foreign currency lending. With respect to funding and liquidity risks, credit institutions are urged to move towards sustainable funding structures. One of the key features of the framework is the principle of reciprocity, which means that for financial institutions operating through

the provision of cross-border services or through branches in other Member States, home Member States' authorities should impose measures on foreign currency lending at least as stringent as those in force in the host Member States.

Implementation deadlines vary between June 2012 and December 2013 depending on the recommendation and addressee.

More information about the ESRB can be found at [www.esrb.europa.eu](http://www.esrb.europa.eu).

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