



Press release

11 April 2023

The General Board of the European Systemic Risk Board held its 49th regular meeting on 30 March 2023

At its meeting on 30 March 2023, the General Board of the European Systemic Risk Board (ESRB) held its regular discussion on risks to financial stability in the EU. On the positive side, the EU economy has proved to be more resilient than expected in the face of the large negative terms-of-trade shock from Russia's war in Ukraine, and growth forecasts for 2023 have been revised upwards. However, recent developments in the banking sector and in financial markets have highlighted the need to remain vigilant with regard to vulnerabilities in a challenging macro-financial environment.

The General Board emphasised that capital and liquidity ratios in the EU banking sector are much higher than before the global financial crisis, with the average Common Equity Tier 1 ratio standing at 15.3% and the average LCR ratio at 161% at the end of the fourth quarter of 2022. The General Board also noted that the EU banking sector is so far benefiting from the ongoing normalisation of interest rates, as the interest rate pass-through on the asset side still significantly exceeds the pass-through on the liability side. As a result, aggregate banking sector profitability has increased to its highest level since 2014. At the same time, other elements need to be considered: first, the deceleration in economic growth and higher interest rates, including the potential impact on asset quality and lending volumes; and second, the effect of rising funding costs for banks, with potential pressure on interest margins. Financial institutions should therefore ensure adequate capital and liquidity planning and carefully preserve their current levels of resilience.

The General Board also discussed risks and vulnerabilities related to non-bank financial intermediation. Next quarter the ESRB will publish a summary of the results of its risk monitoring, in the eighth edition of the EU Non-Bank Financial Intermediation Risk Monitor. In line with the priorities identified by the General Board in June 2022, this edition will expand the scope of monitoring to include crypto-assets and associated intermediaries.

The General Board went on to discuss developments in the crypto-asset market and their possible systemic implications. In that regard, the General Board welcomed the

European Systemic Risk Board

Directorate General Communications

Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany

Tel.: +49 69 1344 7455, email: media@esrb.europa.eu, website: www.esrb.europa.eu

The General Board of the European Systemic Risk Board held its 49th regular meeting on 30 March 2023

forthcoming report on crypto-assets and decentralised finance, which explores these implications and the potential policy responses, and which the ESRB plans to publish in the second quarter of 2023. The report notes that current evidence shows that the crypto ecosystem has few links with, and provides few services to, the traditional financial sector and the real economy. However, crypto-assets have experienced exponential growth in recent years, and the future development path of this market is uncertain. Particular emphasis is given to the fact that authorities should have the capacity to monitor possible spillover channels, both to the traditional financial sector and within the crypto-asset sector itself, to be able to act in a timely manner to address potential systemic risks. In the future, efforts should be made to identify and assess risks from crypto-conglomerates and from leverage using crypto-assets, as well as to monitor market developments with regard to operational resilience, decentralised finance and crypto-asset “staking” and lending.

The electoral body of the General Board, composed of the national members with voting rights, elected Olli Rehn (Governor of Suomen Pankki – Finlands Bank) as First Vice-Chair of the ESRB. Governor Rehn succeeds Stefan Ingves, whose term as Governor of Sveriges Riksbank ended in December 2022. The electoral body also elected Christian Kettel Thomsen (Governor of Danmarks Nationalbank) as a member of the ESRB Steering Committee. Governor Kettel Thomsen succeeds Lars Rohde, whose term of office as Governor of Danmarks Nationalbank ended in January 2023. Finally, the General Board reappointed Professor Lorian Pelizzon (Goethe University Frankfurt) and Professor Stephen Cecchetti (Brandeis University) and appointed Professor Thorsten Beck (European University Institute) to the chairmanship of the ESRB Advisory Scientific Committee (ASC). These appointments have a term of four years, from May 2023 to April 2027. Professor Cecchetti will be Chair for the first 16 months of this period. The ESRB expressed its sincere gratitude to Professor Javier Suarez (CEMFI) for his eight years as Chair and Vice-Chair of the ASC.

For media queries, please contact William Lelieveldt, tel.: +49 69 1344 7316.

European Systemic Risk Board

Directorate General Communications

Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany

Tel.: +49 69 1344 7455, email: media@esrb.europa.eu, website: www.esrb.europa.eu