ESRB
European Systemic Risk Board
European System of Financial Supervision

Press release

29 June 2023

The General Board of the European Systemic Risk Board held its 50th regular meeting on 22 June 2023

At its meeting on 22 June 2023, the General Board of the European Systemic Risk Board (ESRB) concluded that financial stability risks in the EU remain severe. The General Board noted that the end of the prolonged low interest rate environment has changed the risk landscape worldwide, with the full impact of the sharp rise in interest rates only being felt over time. It also took note that the banking sector turbulence in the United States and Switzerland had increased uncertainty and altered market perceptions of banks, including with respect to exposures to long-term fixed income securities, deposit funding stability and the potential for fast-paced outflows of uninsured deposits. The General Board emphasised that the EU banking sector is well positioned to face the challenges arising from the new risk environment, given the sector's sound capital and liquidity positions and favourable profitability on the back of monetary policy normalisation. However, looking forward, it cautioned that several factors may weigh on the outlook for the banking sector: (i) the weak macroeconomic environment may generate a deterioration in asset quality, (ii) the increase in banks' funding costs will reduce net interest income, and (iii) declining credit demand is likely to curtail lending volumes.

The General Board noted that the real estate cycle has reached a turning point in several EU countries or even already passed it. Going forward, a falling number of transactions and credit market indicators suggest that the correction in residential real estate markets is likely to become more broad-based. In the commercial real estate market, investment has continued to decline amid deteriorating business sentiment, a negative profitability outlook, rising financing costs and tightening credit standards.

The General Board also discussed risks and vulnerabilities related to investment funds investing in assets which are either inherently illiquid or might become illiquid in times of stress, notably in corporate debt and real estate. Against this background, the General Board welcomed the forthcoming ESRB issues note, which identifies areas of the framework for investment

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funds that should be strengthened. Future work will take the revised Alternative Investment Fund Managers Directive and the Undertakings for Collective Investment in Transferable Securities Directive as a starting point. Echoing this, the ESRB will prioritise areas which might inform the development of the relevant Level 2 or Level 3 EU legislation, national supervisory guidelines and/or national transposition.

Furthermore, the General Board exchanged views on an Advisory Scientific Committee report on corporate credit and leverage. The report, published today, finds that corporate leverage in the EU (measured as the ratio of debt to total assets both at market prices and book values) has declined continuously since the global financial crisis. This is observed across most EU countries, sizes of non-financial corporations and sectors of activity. Over the same period, the role of non-bank financial intermediaries in the provision of credit to non-financial corporations has been growing, albeit starting from a very low level. The report highlights that understanding the drivers of corporate leverage, including by using more granular data and looking at other indicators of corporate indebtedness, is key as there could be major reallocations of credit to other sectors or financial assets.

Finally, the ESRB today released the 44th issue of its risk dashboard. The risk dashboard is a set of quantitative and qualitative indicators measuring systemic risk in the EU financial system.

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