ESRB
European Systemic Risk Board
European System of Financial Supervision

Press release

5 October 2023

The General Board of the European Systemic Risk Board held its 51st regular meeting on 28 September 2023

At its meeting on 28 September 2023, the General Board of the European Systemic Risk Board (ESRB) concluded that financial stability risks in the EU have remained broadly unchanged since its last meeting in June 2023. GDP growth projections for the EU were recently revised downwards and growth is expected to remain subdued in 2023-24, while inflation is forecast to remain elevated. The General Board acknowledged that the pass-through of monetary tightening to the economy is still ongoing and highlighted the risk that the macroeconomic environment could compound balance sheet stress for households and non-financial corporations, particularly as fiscal buffers are being exhausted. At the same time, it noted that the EU banking sector, which is currently benefiting from strong profitability and robust liquidity, is well positioned to face the challenges arising from the risk environment. This was also demonstrated by the recent European Banking Authority stress test, which showed that European banks would remain resilient under the adverse scenario that assumes heightened geopolitical tensions and strong adverse effects from high inflation and higher interest rates. Furthermore, a strong policy response successfully contained turbulence in the US and Swiss banking sectors in March, reducing the immediate risk of spillovers to the EU.

However, looking forward, the General Board cautioned that several factors may weigh on the outlook for the banking sector: (i) the weak macroeconomic environment may put a strain on asset quality, (ii) the increase in bank funding costs could weigh on net interest income and (iii) reduced credit demand on the back of the subdued growth prospects is likely to curtail lending volumes. The General Board also acknowledged the potential for a disorderly adjustment in financial markets amid a still comfortable but deteriorating liquidity outlook. Against this background, the General Board considered it crucial for supervisory authorities to continue monitoring the impact of the changing macro-financial environment on financial stability with a view to make use of micro- and macroprudential policy responses as needed.

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The General Board exchanged views on financial stability implications of the active account requirement (AAR) proposed by the European Commission in the review of the European Market Infrastructure Regulation**.** The ESRB has previously communicated that introducing an AAR would be an important prerequisite for building domestic clearing capacity in the EU. The ESRB's analysis shows that the effectiveness of the AAR in building such capacity in the EU will depend on the type of trades that fall under the scope of the requirement and on the threshold applied to this requirement. Although the ESRB believes that an AAR could help build clearing capacity, it considers that an AAR on its own would probably be insufficient to address the risks to financial stability that the ESRB has previously identified. In addition, EU supervision would need to be strengthened commensurately with an increase in clearing activity in the EU. The ESRB summarised the findings of this analysis in a letter sent to the European Commission, the European Parliament and the Council of the European Union.

Finally, the General Board discussed the general approach to designing adverse scenarios for the one-off climate risk scenario analysis. The European Commission has asked that the three European Supervisory Authorities (ESAs) conduct this one-off exercise in cooperation with the ECB and the ESRB. The exercise aims to assess the resilience of the EU's financial system, as well as its capacity to support the EU's Fit for 55 green transition strategy and the achievement of the 2030 climate targets. The ESRB will design the adverse scenarios for the Fit for 55 scenario analysis in line with the usual practice used for the regular ESA stress tests.

The ESRB today released the 45th 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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