



DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, TUESDAY, 21 SEPTEMBER 2021

MEETING SUMMARY

1) Post-pandemic recovery – financial stability considerations related to a return to normality

Members discussed the financial stability implications of different policy normalisation paths in a post-pandemic recovery as well as the resilience and near-term prospects of the European banking sector. Members contrasted economic developments in the euro area and the United States, and noted that the two regions face a different set of policy challenges. They also noted the improved resilience of the European banking sector and the resulting optimism among investors regarding the outlook for the sector. With respect to financial stability risks, a majority of members were of the view that pandemic-related risks had receded. Concerns were now largely focused on the potential for a sharp correction in financial markets if bond yields were to suddenly rise, and on the elevated level of public and private sector debt.

2) Hidden leverage

Members also discussed hidden leverage – a common theme underlying recent financial market dislocations and often associated with non-regulated entities – both within the financial system and in the non-financial sector. Members discussed whether any build-up of leverage by non-regulated entities would ordinarily involve regulated entities. Some members thought that risks arising from high leverage among non-regulated entities would be best managed via enhanced risk management practices by regulated entities. Members also discussed whether the main vulnerability is rather the overall level of debt in the real economy.