EUROPEAN CENTRAL BANK

EUROSYSTEM

DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, WEDNESDAY, 28 SEPTEMBER 2022

MEETING SUMMARY

1) Near-term risks for euro area sovereigns and corporates

Group members discussed the financial stability implications of the ongoing war in Ukraine and the associated deterioration in the macro-financial outlook. Members agreed that debt sustainability risks have increased since the last Financial Stability Contact Group meeting (March 2022) and considered these to be the greatest medium-term macro-financial threat to euro area financial stability. Some noted that the corporate sector appeared to be more resilient now than was the case before the Global Financial Crisis of 2007-2009. At the same time, other members expressed concerns that a sustained period of high inflation and higher interest rates could weaken certain corporate sectors over time. Members also expressed concerns regarding the detrimental impact that a protracted conflict in the Ukraine could have on the broader macro-financial environment, with knock-on implications for euro area sovereigns and corporates, especially the energy sector.

2) Financial stability challenges in a more inflationary environment

Members also discussed the financial stability challenges posed by the prevailing higher inflation environment. Most members viewed high inflation as a considerable threat to euro area financial stability should it persist, as it would exacerbate many of the underlying vulnerabilities within the financial system. It was also noted that a sustained period of high inflation could trigger a disorderly financial market correction. As regards the real economy, members expressed concerns regarding a sustained economic impact arising from the elevation of energy costs resulting from the ongoing war in Ukraine and other structural factors (for example deglobalisation). While members saw some positive implications for bank profitability arising from the higher inflation environment and the associated rise of interest rates, they also noted that credit risks for banks are likely to rise as recession risks increase.