

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, THURSDAY, 18 SEPTEMBER 2025

MEETING SUMMARY

1) Global capital flows in an uncertain geopolitical environment

Financial Stability Contact Group (FSCG) members observed continued global capital flows into US assets and declining optimism regarding the outlook for European assets. The pro-growth policy agenda and the lead position in the artificial intelligence (AI) race were seen as the main drivers for the continued flow of capital to US assets. However, contacts did note concern regarding elevated fiscal and policy risks and the possibility of a further depreciation of the US dollar. They observed increased hedging of US exposures for these reasons. Contacts felt that optimism regarding the outlook for European assets, evident among global investors earlier in the year, had stalled. They saw lacklustre growth, a perceived delay in the rollout of German fiscal stimulus and a lack of progress on the so-called Draghi reforms as discouraging investment. More broadly, some contacts opined that multiple “vectors of transformation” (e.g. AI, geopolitical shifts, climate, etc) had created a “poly-furcated” world in which the usual strategic asset allocation practices¹ face challenges, making investment decisions increasingly sensitive to news.

2) The savings and investment union

Slow progress on the European savings and investment union (SIU) was seen by FSCG members as a significant impediment for growth and innovation but a minor source of financial stability risk. Four key suggestions emerged from the discussion. First, participants expressed the view that a true SIU needs to be large in scale and supported by regulatory coherence. They supported a mandate for regulators and regulatory streamlining that would foster efficiency, competition and capital formation, as well as deeper integration of market infrastructure. Second, mobilising long-term capital would, in their view, require pension reform and incentives for insurers. They considered tax wrappers and incentives for private pension schemes as essential for channelling savings into productive investments at large scale. Third, they welcomed the Commission’s proposal on securitisation but called for more². Fourth, at a pivotal moment in time, a window of opportunity to focus on structural reforms was seen, especially as the banking sector is not facing balance sheet constraints in the provision of funds, due to excess liquidity.

¹ For example, typically investors choose a stable 5-year asset allocation and navigate tactically around it. Contacts noted that defining the “stable anchor” has become increasingly difficult, given the vastly different possible futures.

² Notably to incentivise insurers by reviewing capital charges in Solvency II, especially for non-STs (simple, transparent, standardised) investment grade tranches and by expanding the definition of STs tranche to include Commercial Mortgage-Backed Securities and some Collateralized Loan Obligations.