EUROPEAN CENTRAL BANK

EUROSYSTEM

DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, TUESDAY, 29 MARCH 2022

MEETING SUMMARY

1) Navigating an uncertain environment combining higher inflation and weakening growth

Group members discussed the financial stability implications of the ongoing war in Ukraine, agreeing that the conflict had the potential to exacerbate existing vulnerabilities in the financial system. While they believed that the direct impact of the conflict on euro area financial institutions would be manageable, concerns were raised over the implications of second-round macroeconomic effects, particularly if the conflict were to persist for an extended period of time. Members noted concerns over an economic outlook combining rising inflationary pressures and more pronounced downside risks to economic growth, although most members saw little risk of a recession in the euro area. With regard to financial stability risks, near-term concerns focused on the potential for a sharp correction in global financial markets, while longer-term concerns were expressed over the high level of public sector debt. The prospect of stress in the euro area banking sector stemming from these broader risks was considered to be limited, although some members expressed concerns over the high credit and liquidity risk exposures of some non-bank financial institutions.

2) What are buybacks telling us about the outlook for euro area banks?

Members also discussed the medium-term outlook for the euro area banking sector. Members noted the increased stability of euro area banks following the considerable efforts made by the sector to strengthen capital positions over the past decade. Most members felt that planned share buybacks would proceed despite the increase in downside risks arising from the war in Ukraine. Many members noted that share buybacks in this environment can signal strength. However, some members acknowledged that buybacks could also be perceived as an attempt to boost share prices and others suggested they reflect weak profitability prospects and limited growth opportunities for banks in the euro area.