



DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, THURSDAY, 18 MARCH 2021

MEETING SUMMARY

1) Recent developments in financial markets

Members discussed excesses in certain parts of the financial markets, as well as the post-COVID-19 crisis debt overhang. They viewed the recent rise in nominal and real yields as a turning point and expected further increases in US real yields and break-even inflation rates.

Members also discussed the heterogeneity of national policy responses to the COVID-19 crisis, as well as the significant divergences in the take-up of moratoria and guarantee schemes across euro area countries. In their view, this situation could complicate the unwinding of support schemes.

Members expressed concerns regarding financial asset mispricing, the high euro area sovereign and non-financial sector debt levels, the implications of rising US yields, uncertainty about central banks' reaction functions, as well as the timing and speed of a potential correction in financial markets should non-financial sector insolvency concerns start materialising.

2) Evolving outlook for the euro area banking sector

Members also discussed the outlook for the euro area banking sector, which had become more positive since the publication of the Q4 2020 results, with earnings momentum picking up.

In addition, members discussed the structural challenges facing the euro area banking system stemming from the introduction of a digital euro, including the possibility of disintermediation. This would add to the challenges facing the sector in a context of increasing competitive pressures from big tech companies, which are not subject to regulatory capital requirements.