EUROPEAN CENTRAL BANK

EUROSYSTEM

DIRECTORATE GENERAL MACROPRUDENTIAL POLICY AND FINANCIAL STABILITY

FINANCIAL STABILITY CONTACT GROUP

FRANKFURT AM MAIN, WEDNESDAY, 16 SEPTEMBER 2020

MEETING SUMMARY

1) Transition to recovery

Members discussed the role of capital markets and banks in funding the economic recovery following the sharp contraction in the first half of 2020. The discussion centred on the health of the banking system, which remains fragile, and the scope for a bigger role for capital markets in Europe. Low profitability and valuations of banks are important issues which make a case for consolidation in the banking system. Members also discussed how banks have been cautious in drawing down their capital buffers. Finally, while there was recognition of the case for imposing the initial dividend ban in March, members criticised the lack of differentiation between strong and weak banks when extending dividend restrictions in July. Members suggested that this will have medium-term implications for the cost of raising capital. Members acknowledged the importance of capital markets in supplementing bank financing for the recovery. Investors, including domestic ones, are underinvested in the euro and the market appears not to have fully priced in the EU recovery fund announcement. This presents an opportunity to foster the development of European capital markets through a well-designed capital markets union (CMU).

2) Climate finance

Members discussed the role that the financial services industry, capital markets and environmental, social and governance (ESG) funds can play in enabling the transition to a lower carbon economy. Members agreed that ESG investing leads to less risky investments in the long term, and also pointed to the resilience of investment flows into ESG funds during the recent crisis. Sustained strong demand for green bonds is expected to create a premium (“greenium”) and reduce funding costs for issuers of green bonds. But the funding of innovation through the bank lending channel is more difficult as the time horizon for climate risks – and related ESG investments – may be longer than the typical horizon of a bank’s lending book. Finally, members highlighted the importance of better climate-related disclosures, which should help to reduce the risk of greenwashing.