127/2017 : 29 November 2017 – Judgments of the General Court in Cases T-633/16,T-634/16

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Economic growth is supporting financial stability but markets are vulnerable to a sudden increase in volatility

PRESS RELEASE

29 November 2017

- Risks of a repricing of global risk premia remains significant
- Bank profitability prospects still challenged by structural vulnerabilities
- High private and public debt burdens could give rise to debt sustainability concerns in some countries
- Financial stability risks partly mitigated by improved economic conditions

Systemic stress indicators for the euro area have remained low over the past six months, according to the latest Financial Stability Review of the European Central Bank. Better growth prospects as well as lower fiscal and external imbalances contributed to reduced systemic stress indicators for the euro area, , according to the biannual report published today.

The risk of a rapid repricing in global markets nevertheless remains. Continued compression of risk premia, subdued volatility and signs of increased risk-taking behavior in global financial markets are all sources of concern, as they may sow the seeds for large asset price corrections in the future.

Profitability challenges remain for euro area banks. Market pressure on euro area banks has eased further since May, but for a large number of banks their valuations are still low compared with global peers. In some regions, profitability prospects are still dampened by large stocks of non-performing loans (NPLs). A number of structural challenges are also weighing on the profitability outlook for banks. These include overcapacity, a lack of income diversification and cost inefficiencies.

Over the past six months the ongoing economic recovery has supported the outlook for the sustainability of euro area sovereign debt. Renewed political uncertainty could lead to higher risk premia being demanded on sovereign bonds, potentially triggering debt sustainability concerns in some countries. Risks stemming from elevated debt levels are also present in the non-financial private sector, given the high levels of indebtedness of the euro area non-financial corporate sector, both by historical and by international standards.

Risks to euro area financial stability may also emerge from the investment fund sector. This sector has further increased its risk-taking in recent years. Asset allocations have been rebalanced towards lower-rated and higher-yielding assets. At the same time, the liquidity buffers held by bond funds have gradually been shrinking across all segments of the investment fund market. The continued increase in risk-taking, coupled with limited buffers, heightens the potential for fund redemptions to adversely affect market conditions if a repricing of global risk premia does take place.

In this environment, the Review singles out four main risks to financial stability in the euro area over the next two years (see table).

Key risks to euro area financial stability

pronounced systemic risk
medium-level systemic risk
potential systemic risk

	Current level (colour) and recent change (arrow)*
1. Abrupt and sizeable repricing of risk premia in global financial markets – triggered by an expected change in policy, for example – leading to a tightening of financial conditions	→
2. Adverse feedback loop between weak bank profitability and low nominal growth, amid structural challenges in the euro area banking sector	→
3. Public and private sector debt sustainability concerns amid a potential repricing of risk premia and increased political fragmentation	→
4. Liquidity risks in the non-bank financial sector with potential spillovers to the broader financial system	→

* The colour indicates the cumulative level of risk, which is a combination of the probability of materialisation and an estimate of the likely systemic impact of the identified risk over the next 24 months, based on the judgement of the ECB's staff. The arrows indicate whether the risk has increased since the previous FSR.

The Review also contains four special features. The first special feature discusses the use of NPL transaction platforms. The second provides an overview of euro area cross-border banking over the past decade. The third examines recent developments in repo markets and how regulatory reform is affecting the functioning of these markets. The fourth examines the low volatility in financial markets and considers potential triggers and amplifiers that could lead to higher volatility in the future.

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125/2017 : 29 November 2017 – Judgment of the Court of Justice in Case C-265/16

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Report on the results of the Survey on the Access to Finance of Enterprises in the euro area – April to September 2017

PRESS RELEASE

29 November 2017

- On balance, SMEs report increasing profits for the first time since the beginning of the survey in 2009
- Higher willingness of banks to lend and better economic outlook support availability of external finance
- Improved availability of external finance also visible in countries more affected by the crisis

The financial situation of firms further improved. From April to September 2017, the share of euro area SMEs reporting higher turnover increased significantly (net percentage of 27%, from 19% during the previous survey round). In Greece, a positive net percentage of SMEs reported an increase in turnover for the first time since the beginning of the survey in 2009 (5%, from -13%). Similarly, positive turnover trends were also reflected in profits, as for the first time euro area SMEs reported, in net terms, an increase in profits (5%, from 0%).

In net terms, SMEs continued to indicate improved availability of both bank loans (12%, unchanged) and overdrafts (11%, from 10%). These improvements were also visible in countries more affected by the crisis, as Spain (23%), Portugal (22%) and Ireland (17%) had the highest net percentages of SMEs indicating better availability of bank loans among euro area countries. SMEs attributed these improvements to a higher willingness of banks to provide credit (18%, from 16%), as well as an increasingly supportive general economic outlook (14%, from 5%). At the same time, the share of SMEs applying for a bank loan declined (27%, from 32%), as a greater share of SMEs indicated sufficient funds (43%, from 39%). The rate for fully successful loan applications remained unchanged (74%), while the rejection rate declined slightly (5%, from 6%).

The “Survey on the Access to Finance of Enterprises” was developed to provide evidence on changes in the financial situation of enterprises and to document trends in the needs for and the availability of external financing. The results refer to the period from April to September 2017. This survey round was conducted between 18 September and 27 October 2017. The total euro area sample size was 11,202 firms, of which 10,210 (91%) had fewer than 250 employees.

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Compliance table for the Guidelines on participant default rules and procedures under Regulation (EU) No 909/2014 (ESMA70-151-294)

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