

1st ESRB Annual Conference

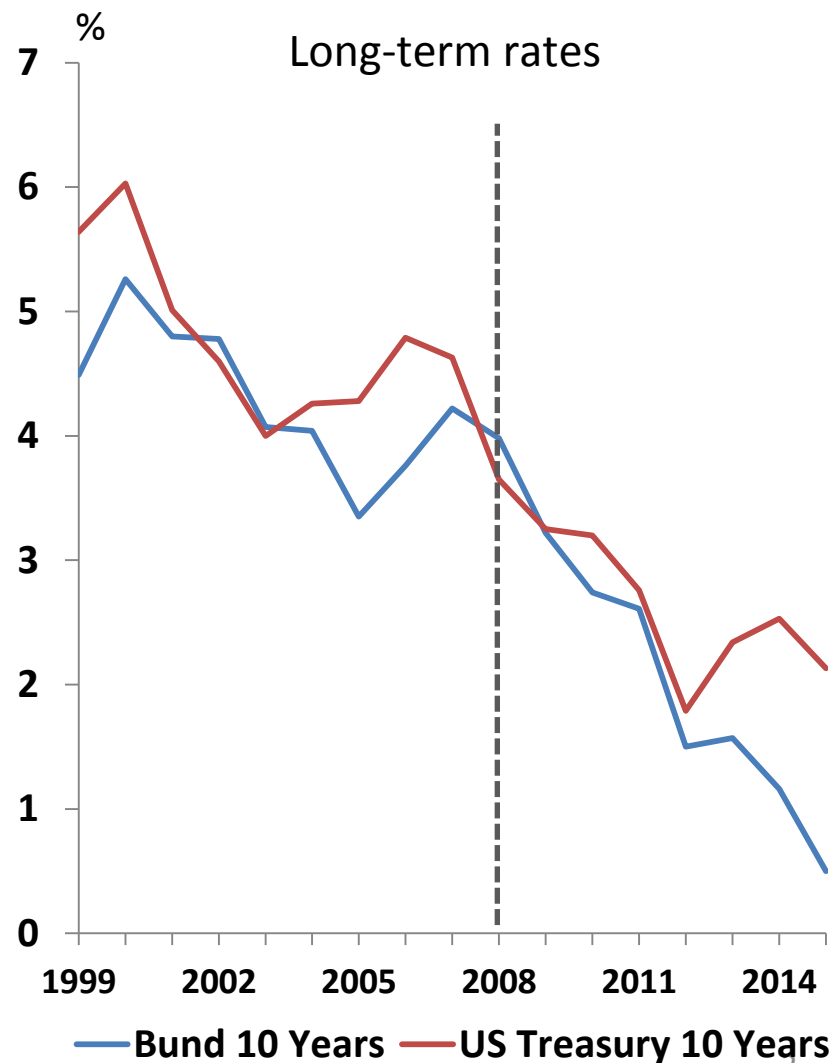
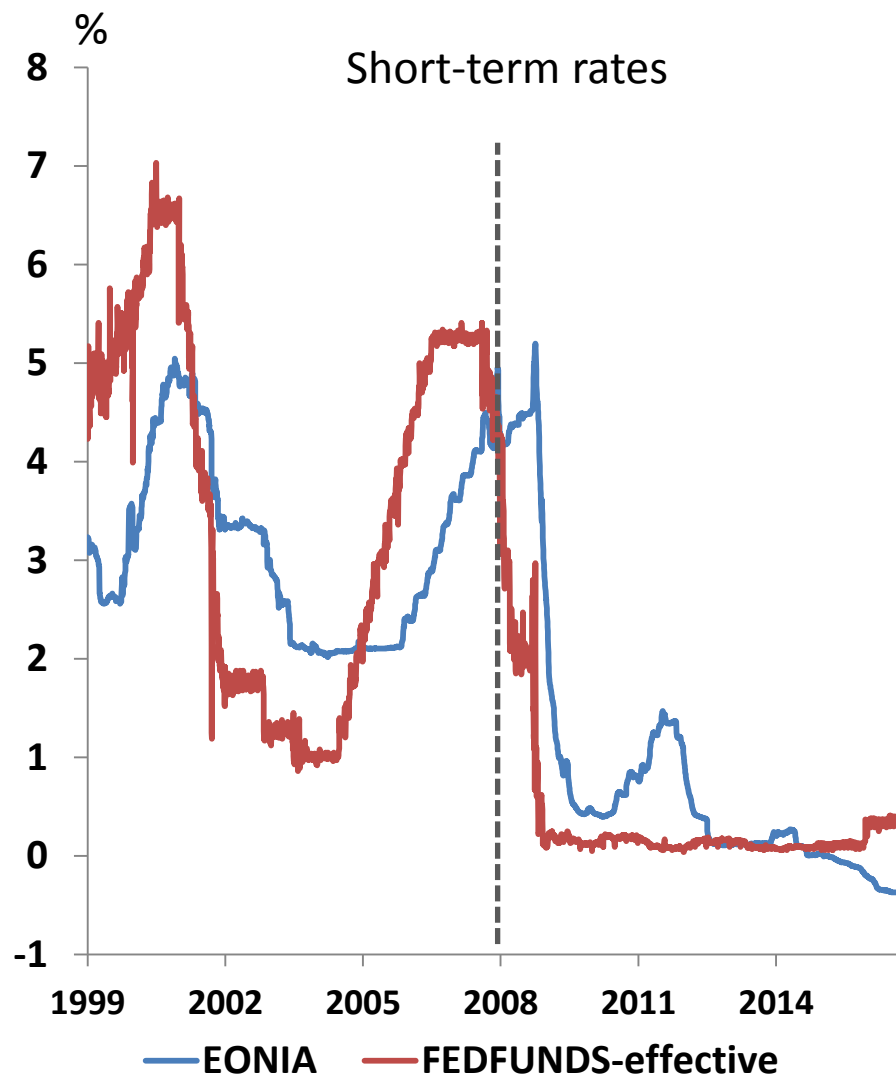
Low interest rates and the implications for financial stability

François Villeroy de Galhau

Governor of the Banque de France

➤ What do we mean by 'low rates'? (1/2)

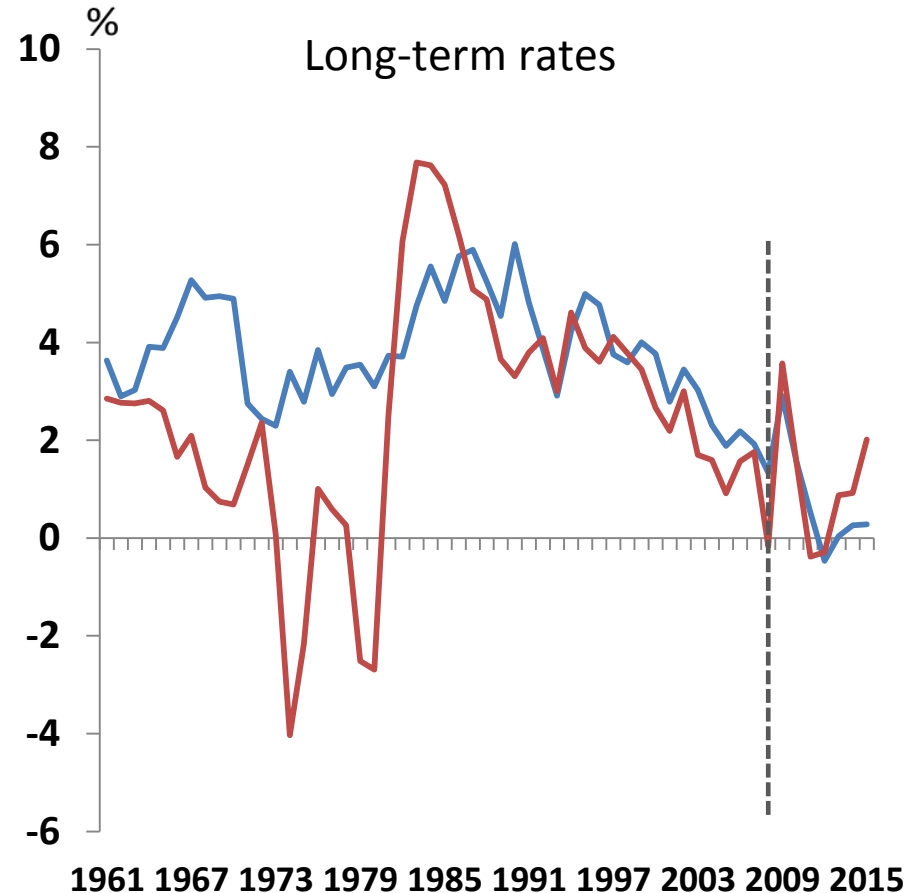
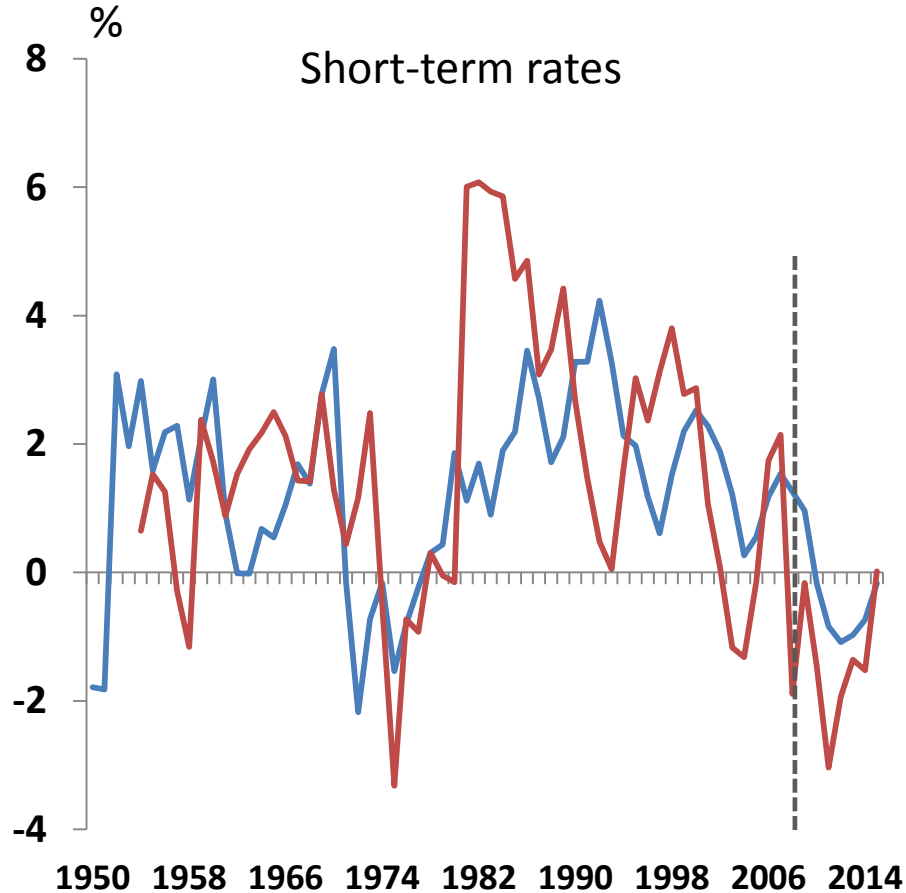
Nominal interest rates in the US and the EA



Sources: AMECO, ECB, FRED

➤ What do we mean by 'low rates'? (2/2)

Real interest rates in the US and the EA



— BUBA Discount Rate Real
— FED Funds Effective Real Rate

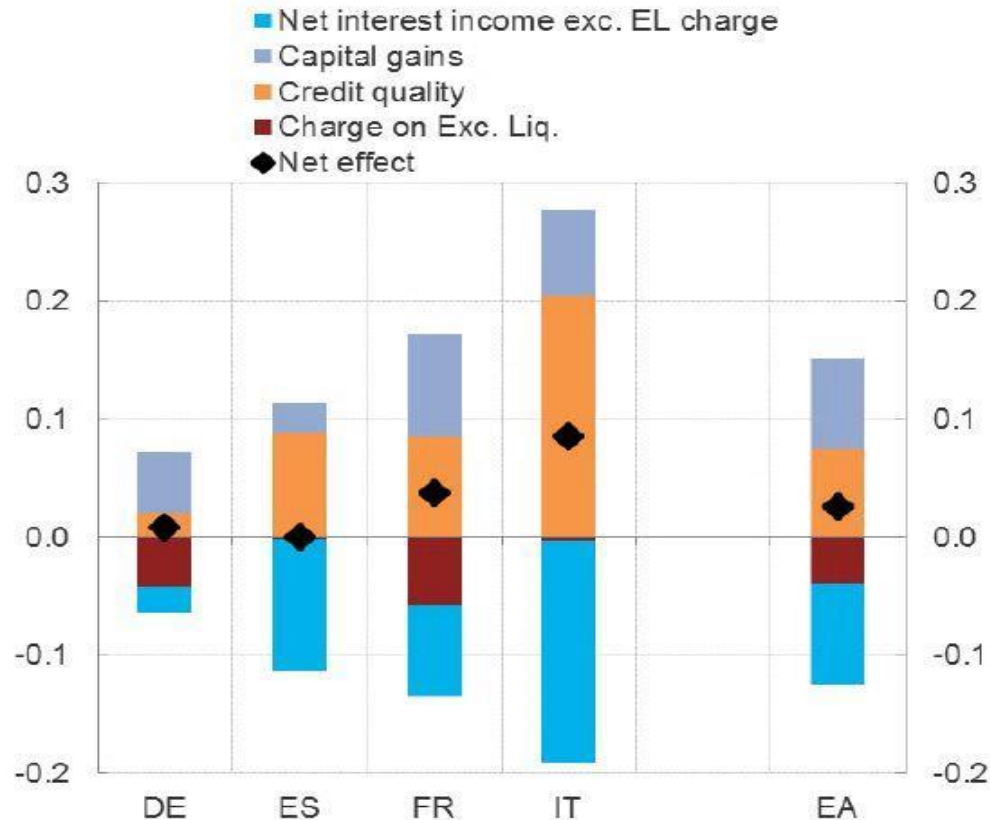
— Bund 10 Years
— US Treasury 10 Years

Source: BdF calculations, Bundesbank, FRED

➤ What are the consequences for financial stability?

Bank profitability

Bank profitability and monetary policy: 2014-2017
(contribution to ROA, percentage points)



Source: ECB

Notes: deviation from no policy action scenario. Capital gains based on data on a consolidated basis for 68 euro area banking groups under direct ECB supervision and included in the 2014 EU-wide stress test. Euro area figures calculated as the weighted average for the countries included in the sample using Consolidated Banking Data (CBD) information on the weight of each country's banking system on the euro area aggregate. Effect on net interest income based on aggregate BSI data and obtained by simulation of the interest income and interest expenses based on estimates of the effect of the APP on bond yields, lending and deposit rates, excess liquidity and economic growth taking into account BMPE projections for interest rates and credit aggregates. Effect on credit quality based on the median of estimates obtained from a suite of empirical studies.