

## Press release

17 November 2021

# ECB Financial Stability Review shows pandemic risks eased with recovery but vulnerabilities ahead building up

- Near-term pandemic-related risks to financial stability have declined as economy rebounds
- Growing vulnerabilities in housing markets and stretched financial asset valuations
- Potential challenges to recovery and inflation outlook from strains in global supply chains and rising energy prices

The economic recovery in the euro area has reduced near-term pandemic-related risks to financial stability, the [November 2021 Financial Stability Review \(FSR\)](#) published today by the European Central Bank (ECB) concludes. However, vulnerabilities are rising due to stretched valuations in some asset markets, elevated levels of public and private debt, and increased risk-taking by non-banks.

“Risks of high rates of corporate defaults and bank losses are now significantly lower than six months ago. But risks from the pandemic have not disappeared entirely,” said Luis de Guindos, Vice-President of the ECB.

Euro area firms saw their profits recover as the economy rebounded in the first half of 2021. Partly thanks to this, corporate insolvencies remained below pre-pandemic levels, although they did increase in the economic sectors that were most affected by the pandemic and could still rise further.

At the same time, strains in global supply chains and the recent rise in energy prices could pose challenges to the economic recovery and the outlook for inflation. The risk of price corrections has increased in some real estate and financial markets. Vulnerabilities in residential real estate markets have grown, especially in countries with valuations that were already elevated prior to the pandemic. Riskier segments of global financial markets have experienced increasing investor demand, with interest widening in novel asset classes such as crypto-assets.

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Non-banks, which include investment funds, insurers and pension funds, continued to increase their exposure to lower-rated corporate debt and could face substantial credit losses if conditions in the corporate sector were to worsen. Investment funds also remain highly exposed to liquidity risk.

Market valuations of euro area banks have returned to pre-pandemic levels. Bank losses have remained low, although some pandemic-related losses may take time to materialise. Further ahead, low cost efficiency and overcapacity remain key structural challenges to the profitability of euro area banks.

Tighter [macroprudential policies](#) can help address growing vulnerabilities, notably for housing markets in some countries. It will also be essential to enhance the regulatory framework for the financial sector, including full, timely implementation of the Basel III reforms and a stronger policy framework for the non-bank financial sector.

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