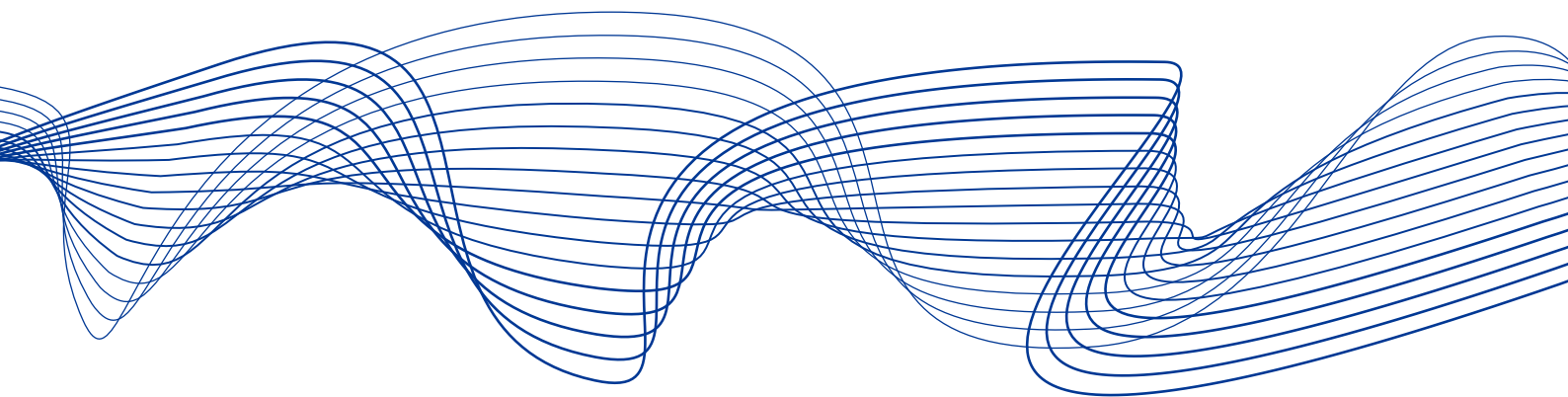




ESRB
European Systemic Risk Board
European System of Financial Supervision

ESRB Annual Report 2024



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Foreword



I am very pleased to present the 14th Annual Report of the European Systemic Risk Board (ESRB), which covers the period between 1 April 2024 and 31 March 2025. The ESRB Annual Report is integral to the ESRB's duties of transparency and accountability. It aims to communicate, to the co-legislators in the European Union and to the European public at large, how the ESRB delivered on its mandate.

The 12 months in the review period have been challenging. Nevertheless, Europe's financial system has shown resilience. Most banks and insurance corporations have enjoyed historically high profits, and financial assets have become more attractive to international investors. But this is no time for complacency: radical and fast changes in the geopolitical environment remain a challenge for all of us.

Macroprudential policy has helped the financial sector to navigate traditional vulnerabilities. Authorities continued to take action to address challenges such as the pronounced volatility in residential and commercial real estate markets, which was characterised by excessive and unsustainable exuberance, protracted risk aversion and materialisation of risk. Real estate is still an area of concern in some cases, but much progress has been made in containing its impact on the financial sector.

A system-wide approach to macroprudential policy is needed in the current climate, where banking risks are compounded by vulnerabilities in other sectors of the financial system. After the global financial crisis, bank-centricity characterised the European financial sector, leading to financial stability concerns because of the lack of alternatives. In response, the EU legislators provided an ample set of banking tools to macroprudential authorities. Today, non-banks originate a significant part of lending. A richer offer of financial services is an opportunity for the real economy, but also a source of risk. Therefore, in recent years the ESRB has been advocating a complementary set of policy tools that address risks from non-bank financial intermediation. This remains urgent and I look forward to EU legislators implementing regulatory reforms.

The ESRB has also advocated a more activity-based approach to legislation, which could prevent or mitigate risk shifting between financial sectors. In November 2024 the ESRB published a **report** that shows the merits of combining the prevailing focus on entities with a focus on activities. Currently, the legislative framework is fragmented between different legal entities and does not take account of how they interact. To give an example, central counterparties (CCPs), clearing members and bank clients form an integrated clearing ecosystem which can absorb credit risks but also amplify liquidity risks. This requires great attention by the ESRB and all sectorial authorities. I welcome the recent establishment of the Joint Monitoring Mechanism, which brings together all European Supervisory Authorities (ESAs), the ESRB, the ECB and the national authorities to fully grasp the macro-financial implications of such interactions.

Much has been said about the urgent need to establish a savings and investment union. In this regard, I am pleased to have hosted European Commissioner Maria Luís Albuquerque in the ESRB General Board's first meeting after her appointment. We discussed how macroprudential policy can provide an additional element of macro-financial stability and therefore support financial market integration, to the benefit of citizens and companies. In my introductory statement to the Committee on Economic and Monetary Affairs of the European Parliament, I also stressed the need to further develop European supervisory competencies to reduce risks of fragmentation.

During the review period, new players and new products entered the European financial market. This was the case for crypto-asset service providers, which are the new kids on the block in finance. But traditional players, too, are increasingly offering crypto services to their customers. This brings opportunities, but also a new set of risks. During the review period, the Markets in Crypto-Assets Regulation (MiCA) entered into force. In my capacity as ESRB Chair, I have mentioned on several occasions that the European Union should consider an integration of the MiCA regime. This Annual Report also raises concerns about the fungibility of stablecoins issued both in the EU and in a third country ("multi-issuance schemes"), which are shared by several ESRB member institutions.

Cyber criminals and nation state actors form a nexus that poses new hybrid risks to financial stability. The ESRB published a [report](#) in which it reviewed national and pan-European frameworks to advance cyber resilience in the financial sector. In the context of the Digital Operational Resilience Act (DORA), the ESAs created a pan-European systemic cyber incident coordination framework (EU-SCICF), which the ESRB joined in January 2025. EU-SCICF is a forum for financial authorities to exchange confidential information during large-scale cyber incidents, including on their potential propagation and mitigation measures. Its timely activation can minimise coordination failures across authorities. It can also be used in broader operational incidents, where the root cause can often only be determined after a significant period.

The ESRB Regulation required that the legal basis of the ESRB be reviewed by the end of 2024. In this context, a group of four experts was asked to provide their independent views on the [future of the ESRB](#). One of the ESRB's longer-term ambitions is to develop capacity for system-wide top-down stress testing. An important first step was a liquidity stress test for the entire financial system, which was finalised during the review period.

The successful work of the ESRB owes much to the dedication of many people from its member institutions and the renowned experts in our Advisory Scientific Committee. I would like to thank them all for their contributions, which are acknowledged in the numerous publications of the ESRB. Here, I can only mention a few people with whom I have been in especially close contact, in particular François Villeroy de Galhau, Governor of the Banque de France, for his support in the Steering Committee, where I was pleased to welcome Joachim Nagel, President of the Deutsche Bundesbank, as his successor. Let me also express my gratitude to Pablo Hernández de Cos, who has agreed to continue chairing the Advisory

Technical Committee for one year after the end of his mandate as Governor of the Banco de España. I am also grateful to Aino Bunge, Deputy Governor of Sveriges Riksbank, for having accepted the post of Advisory Technical Committee Vice-Chair. My thanks also go to Stephen Cecchetti for chairing the Advisory Scientific Committee, and to Thorsten Beck for taking over this demanding role. And none of our work would have been possible without the ESRB Team's unwavering dedication under the guidance of the Head of the ESRB Secretariat, Francesco Mazzaferro.

Christine Lagarde

ESRB Chair

Executive summary

The review period for this Annual Report runs from 1 April 2024 to 31 March 2025.

The European Systemic Risk Board (ESRB) performed its regular identification and assessment of vulnerabilities and risks.

The EU economy faced significant challenges to financial stability during the review period, driven primarily by external factors. Key risks included tensions in the Middle East and Russia's ongoing aggression against Ukraine. This led to commodity price volatility and inflation fears, which were mitigated by the EU's efforts to reduce its dependency on Russian energy. Additionally, policy shifts in the United States, such as proposed trade restrictions and fiscal expansion, created global uncertainty that contributed to higher market volatility and to downward revisions of EU economic growth forecasts. Despite a slight improvement in EU economic growth in 2024, prospects remained subdued owing to these uncertainties. Inflation trends moderated in early 2025, aligning with medium-term stability expectations. Corporate vulnerabilities remained elevated, with insolvencies rising and profits squeezed by high costs and weak demand. Smaller firms and those with substantial US exposures were particularly affected. The EU household sector showed resilience, supported by lower inflation, low unemployment rates, reduced financing costs and a rebound in real estate prices. Risk appetite was strong in the financial markets, with stock prices rising, notably in the United States. However, geopolitical and macroeconomic risks continue to affect asset valuations. European banks remained resilient, posting record profits, but future challenges could test this resilience. Elevated public debt-to-GDP ratios and rising security threats required careful fiscal sustainability management and increased defence financing.

Shortly after the cut-off date for this Annual Report, the US Administration imposed large tariffs on its major trading partners to reduce the US trade deficit. These trade restrictions, imposed in early April, led to substantial revisions of the global economic outlook and triggered an increase in volatility in the financial markets. Surveys show that market participants have downgraded their economic growth projections, particularly for the US economy. The tariffs also raised inflation expectations, as higher import costs are expected to be partially passed on to consumers. Despite the elevated volatility and low liquidity observed in certain asset classes, global financial markets remain generally resilient, with no discernible impact on price discovery. If the tariffs are long-lasting, financial stability risks may materialise in the EU and developments must be closely monitored by the European authorities.

The ESRB expanded its monitoring framework in line with its mandate to monitor systemic risks in the EU financial sector. As part of this mandate, the ESRB published a report in February 2025, setting out a comprehensive framework

for monitoring systemic liquidity risks.¹ This new framework introduces a broad set of indicators that cover funding liquidity risks for banks, insurers, pension funds and investment funds, as well as market liquidity risks across major asset classes. The ESRB also developed its monitoring framework for the EU securitisation market. The ESRB General Board discussed and approved a report at its meeting in March 2025 and the report was published after the review period, in May.² Finally, the ESRB published its regular monitoring report on vulnerabilities and risks concerning certain non-bank financial intermediaries.³

Stress tests help assess the vulnerabilities of the financial system to the potential materialisation of risks. They simulate the response of financial institutions under hypothetical adverse economic and financial conditions, aiding in risk management and crisis prevention. In accordance with their mandates, the European Supervisory Authorities (ESAs) are required to coordinate, in conjunction with the ESRB, the EU-level stress-testing exercises falling within their remit. Over the review period, the ESRB provided the European Securities and Markets Authority (ESMA) with the adverse scenario for the 2024 money market fund (MMF) stress-testing guidelines. It also provided the adverse scenario for the 2025 EU-wide banking sector stress test exercise coordinated by the European Banking Authority (EBA) and two adverse scenarios for the 2025 EU-wide stress test of occupational pension funds coordinated by the European Insurance and Occupational Pensions Authority (EIOPA). All scenarios were tailored to encompass the business models and risk profiles of the various types of financial institutions covered by the specific stress-testing exercises. In addition to contributing to the sectoral stress tests of the ESAs, the ESRB developed a system-wide liquidity stress test to better understand the dynamics of liquidity risks across the entire EU financial system. The objective of this exercise is to gain an understanding of the interconnectedness across and within EU sectors and to quantify the impact of an aggregate liquidity shock in the EU.

The ESRB's work on assessing and tackling vulnerabilities that could pose risks to financial stability relies on granular, high-quality data. The ESRB has access to certain granular, transaction or institution-specific data on a regular, ongoing basis. These include data on derivatives transactions, securities financing transactions, securitisation and alternative investment funds. During the review period, the ESRB continued to analyse these data, fulfilling its mandate to assess risks to financial stability. However, the ESRB's ability to meet this objective in the most effective manner is hampered by a lack of access to certain granular data on a regular, ongoing basis, for example data on some types of investment funds and insurers. Against this backdrop, the ESRB outlined its view for enhancing data sharing between the ESAs and the ESRB, to better align its access to data with its objectives and mandate.⁴ At the end of the review period, these concerns had not yet been addressed.

¹ See “Systemic liquidity risk: a monitoring framework”, European Systemic Risk Board, February 2025.

² See “Unveiling the impact of STS on-balance-sheet securitisation on EU financial stability”, European Systemic Risk Board, May 2025.

³ See “NBFI Monitor”, No 9, European Systemic Risk Board, June 2024.

⁴ For further information, see the ESRB's letter on data sharing between the ESAs and the ESRB published on 19 August 2024.

The ESRB also highlighted the need to adopt a system-wide perspective, as this is central to its mandate of macroprudential oversight of the EU financial system.

A system-wide approach is becoming increasingly necessary as interdependencies between banks and non-banks blur the lines between different sectors in the financial system. The ESRB outlined its vision for a system-wide approach to assessing and mitigating risks to financial stability in its response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation.⁵ The importance of this system-wide approach was echoed in a report informing the review of the ESRB Regulation. The report was prepared by a High-Level Group whose four members were familiar with the work and functioning of the ESRB.⁶

Reflecting this, the ESRB continued to work on several important cross-sectoral and cross-border policy topics. The ESRB has applied this system-wide approach to three activities that it considers to be important for financial stability – asset management, clearing and lending. During the review period, it also made cross-sectoral policy proposals to help address risks to financial stability from crypto-assets and associated activities, as well as margin calls. In addition, the ESRB continued to work on policy proposals to help prevent or mitigate risks to financial stability from system-wide cyber incidents, as well as risks arising from developments in the commercial and residential real estate markets.

In parallel, the ESRB further developed its sector-specific policies for banks and non-banks, given that these also support the overall stability of the financial system.

The ESRB continued to make progress on banking sector-specific policies. This included providing input to the European Commission's ongoing review of the macroprudential framework, notably at the meetings of the European Commission's Expert Group on Banking, Payments and Insurance held in October 2024 and March 2025.

The ESRB continued to apply its common macroprudential stance framework for banks to evaluate the macroprudential stance of ESRB members, in order to both support and challenge their national macroprudential policy decisions. During the review period, this work included deepening country-specific analysis. The ESRB intends to broaden this analysis to include non-bank financial intermediation in due course.

In addition, a report was published jointly with the European Central Bank (ECB) to provide a better understanding of how the concept of a positive neutral rate for the countercyclical buffer (CCyB) is being applied in European Economic Area (EEA) countries. The report outlined members' views on a way

⁵ See ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation.

⁶ For further information see the report by the High-Level Group on the ESRB Review entitled "Building on a decade of success", European Systemic Risk Board, December 2024.

forward for European legislation, including suggestions on facilitating the use of the CCyB at an earlier stage of the financial cycle.

The ESRB also continued to work on policies specific to non-banks. In the previous review period, EU co-legislators had reached political agreement on the “level 1” texts setting the prudential rules governing investment funds, insurers and central counterparties (CCPs). During the review period currently under discussion, the ESRB proposed changes to some of these rules to enhance the resilience of non-banks. It also provided advice to EIOPA and ESMA on macroprudential aspects of certain “level 2” and “level 3” texts being developed by the ESAs to implement the new prudential rules. This included proposals and advice concerning the prudential rules for CCPs, investment funds and insurers.

The ESRB continued to play an oversight role in the assessment of national policy measures.

The ESRB is notified of macroprudential measures taken by national authorities and in some cases has to give its opinion on their use and/or reciprocity. In the banking sector, capital-based macroprudential policies in several Member States were further tightened over the review period. However, some borrower-based measures (BBMs) were removed or loosened. A number of capital-based measures were taken, predominantly for CCyBs, which were primarily aimed at tightening existing macroprudential policy stances. A number of BBMs were also applied, albeit with no particular direction in terms of tightening or loosening countries’ macroprudential policy stances. Looking at aggregate capital buffer requirements across the EEA, systemic risk buffers (SyRBs) have declined overall since the pandemic, but this has largely been offset by the build-up of CCyBs of a similar magnitude on aggregate. In the non-bank sector, the Luxembourg Commission de Surveillance du Secteur Financier and the Central Bank of Ireland announced that they would introduce leverage limits in accordance with Article 25(3) of the Alternative Investment Fund Managers Directive (AIFMD). This is one of the few macroprudential tools available to authorities to reduce systemic vulnerabilities for non-banks and the ESRB was notified about these measures during the previous review period.

The ESRB complied with its accountability and reporting obligations to the European Parliament and vis-à-vis the public. The ESRB Chair attended a public hearing before the European Parliament’s Committee on Economic and Monetary Affairs (ECON) on 4 December 2024 and two confidential meetings with the ECON Chair and Vice-Chairs to discuss financial stability risks. The ESRB First Vice-Chair attended the ECON hearing on 20 February 2025 to discuss strategic advice on the future of the ESRB. In terms of its accountability to the public, the ESRB published its 2023 Annual Report in July 2024. In addition, the ESRB contributed to the Financial Sector Assessment Program of the euro area issued by the International Monetary Fund (IMF), which was conducted in October 2024 and February-March 2025. The IMF has made several recommendations to the ESRB. The ESRB General Board had asked the High-Level Group on the ESRB Review to contribute to the second review of the ESRB Regulation with strategic advice on the future of the ESRB. The Group’s **report** was published in December 2024 and submitted to

the European Commission, the European Parliament and the Council of the European Union.

1 Systemic risks in the EU financial system

1.1 Overall risk assessment

Box 1

Financial stability implications of the trade restrictions imposed by the United States in April/May 2025

The purpose of this box is to discuss the financial stability implications of the significant US trade restrictions imposed after the cut-off date of this Annual Report. The box covers the period from 1 April to 31 May 2025.

On 2 April the US Administration decided to impose significant tariffs on its major trading partners, with the aim of reducing the US trade deficit. A minimum 10% tariff was implemented on all US imports, with even higher tariffs imposed on 57 of the United States' trading partners. China immediately retaliated by imposing higher tariffs. On 9 April President Trump announced a 90-day tariff reprieve for countries that did not retaliate and lowered all reciprocal tariffs to 10%, while tariffs on China were increased to 145%. On 12 May the United States agreed to cut tariffs on Chinese goods to 30%, while China reduced their tariffs on US products to 10%. Both sides agreed to assess the situation after 90 days.

The trade restrictions implemented by the US Administration on 2 April prompted significant revisions to the global economic outlook and triggered heightened financial market volatility. The implementation of the tariffs and lingering uncertainty over how long they would be in place had a marked impact on the global economic outlook. Economic growth projections for most major markets were revised downwards, particularly for the US economy. The tariffs also led to higher inflation expectations in the United States, as rising import costs were expected to be partially passed on to consumers. The scope and magnitude of the tariffs imposed by the United States were greater than market participants had anticipated. Consequently, the prices of riskier assets, such as stocks and high-yield corporate bonds, fell sharply amid extreme volatility as investors shifted their funds to safer assets. In the second half of April and continuing in May, risks abated somewhat as the US Administration rolled back some of the tariffs. Despite the low liquidity observed in certain asset classes, global financial markets remained generally resilient, with no discernible impact on price discovery.

The US Administration's decision to impose extensive tariffs poses additional risks to financial stability in the EU. If the tariffs are long-lasting, financial stability

risks in the EU could materialise. Lower growth and increased inflation uncertainty may reduce demand for goods, potentially leading to lower profits and higher insolvency rates for firms. Additionally, unemployment is likely to rise, leading to increased stress for households. A prolonged period of trade restrictions and elevated uncertainty could also trigger a disorderly correction of asset prices, potentially amplified by the non-bank financial sector. A combination of low growth and falling asset prices may have adverse implications for the banking sector, including higher funding costs, reduced profitability and deteriorations in asset quality.

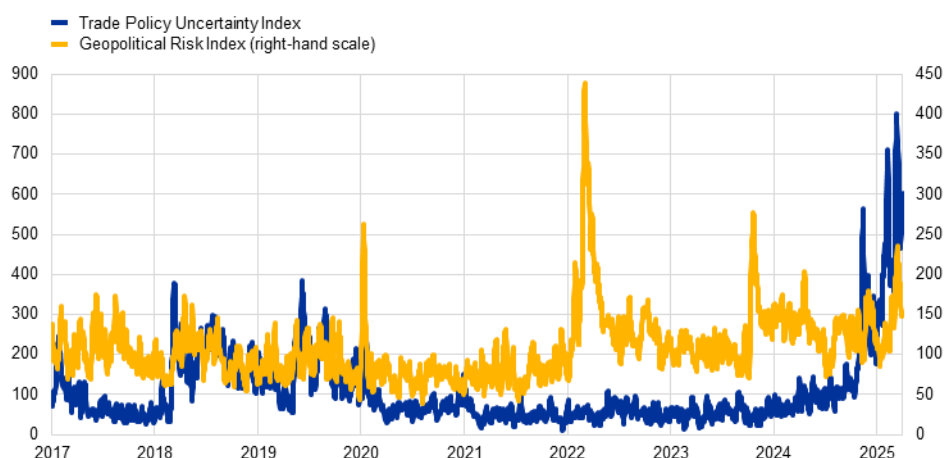
Risk to financial stability remained high in 2024 and early 2025 and the outlook was challenged by higher trade and geopolitical tensions.

During the review period (from 1 April 2024 to 31 March 2025), the EU economy grappled with significant financial stability challenges driven by external factors. Key concerns included ongoing tensions in the Middle East, which caused temporary commodity price volatility and heightened fears of global inflationary pressures. Additionally, Russia's continued aggression against Ukraine posed moderate financial stability risks, mitigated by EU institutions' efforts to reduce the area's dependency on and financial exposure to Russian energy. Meanwhile, policy shifts in the United States, including proposed trade restrictions and fiscal expansion, led to higher macro-financial uncertainty in most major markets. Trade and geopolitical risks surged at the end of 2024 and into 2025, increasing the likelihood of adverse scenarios (see Chart 1). Although EU economic growth improved slightly in 2024, prospects remained subdued amid these uncertainties. Inflation trends moderated, aligning with medium-term stability expectations by early 2025.

Chart 1

Trade Policy Uncertainty Index and Geopolitical Risk Index

(left-hand scale: index; right-hand scale: index)



Source: Iacoviello et al., 2020 and Caldara and Iacoviello, 2022.

Note: Both indices are normalised to a long-term average of 100. The series are seven-day moving averages of the underlying data.

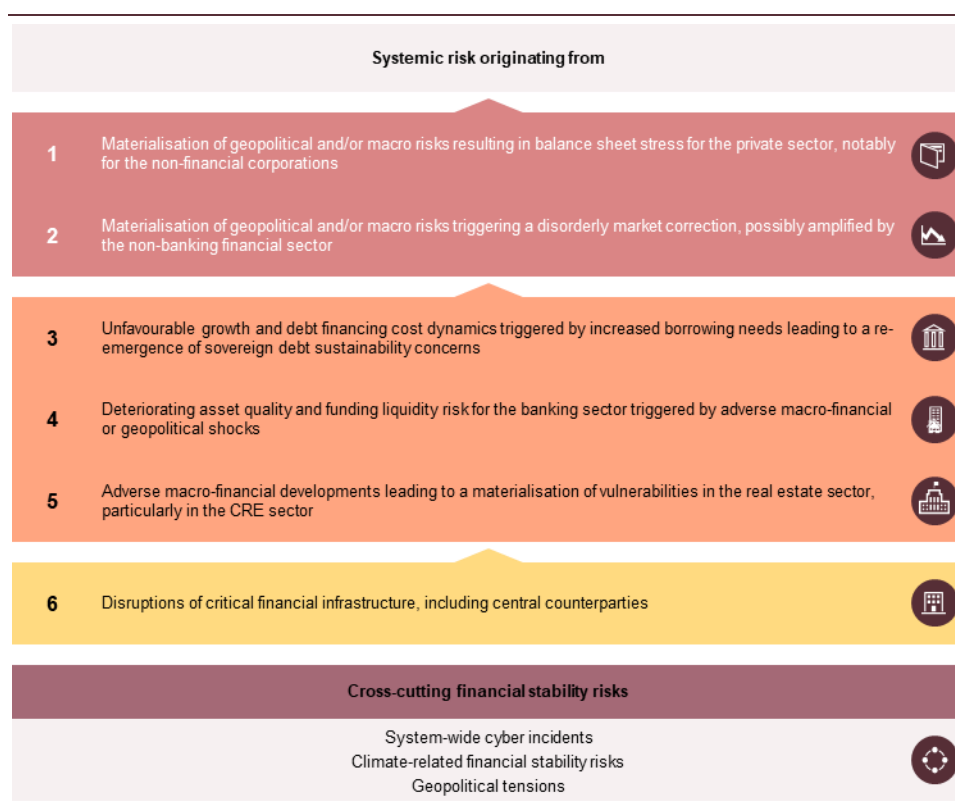
Corporate vulnerabilities persisted, while risk appetite in the financial markets was strong in 2024. Corporate insolvencies rose, as the effects of the pandemic continued to linger and profits were squeezed by high costs and weak demand, which particularly affected smaller and sector-specific firms. Firms with substantial US exposures faced increased risks owing to potential trade barriers. Despite these challenges, the EU household sector showed resilience, bolstered by lower inflation, low unemployment rates, reduced financing costs and a rebound in real estate prices. Risk appetite was strong in the financial markets, with rising stock prices, particularly in the United States, driven by technology stock gains. Nonetheless, this appetite waned as investors reassessed the impact of trade restrictions. Asset class valuations remained high, with potential geopolitical and macroeconomic risks posing threats of disorderly corrections.

European banks remained resilient despite a challenging external environment. European banks posted record profits in 2024, supported by strong interest income and manageable costs. However, future macro-financial challenges could test their resilience, with potential risks including funding pressures and deteriorating asset quality, particularly for banks with significant exposures to the commercial real estate (CRE) sector and firms with a heavy reliance on exports. Elevated public debt-to-GDP ratios posed vulnerabilities for several EU countries, reducing their capacity to absorb future shocks.

Rising security threats triggered a need for increased defence spending, which could strain fiscal sustainability. Member States must carefully manage their defence financing to avoid exacerbating sovereign debt concerns. The combination of rising bond yields and high public deficits could further burden countries with existing fiscal imbalances. Ensuring future stability requires a robust framework for economic and fiscal coordination amid these complexities.

In March 2025 the ESRB highlighted six key risks to financial stability, of which two were assessed as being “severe” (see Figure 1). As part of its mandate, the ESRB regularly assesses systemic risks over a three-year horizon and the risks it identifies form the basis for ESRB warnings and recommendations. The risk level reflects the probability of risks materialising and their potential systemic impact on the financial system.

Figure 1
ESRB risk assessment as at March 2025



Note: The colour red denotes severe systemic risk, orange denotes elevated systemic risk and yellow denotes systemic risk.

1.2 Key risks to financial stability

1.2.1 Severe systemic risks

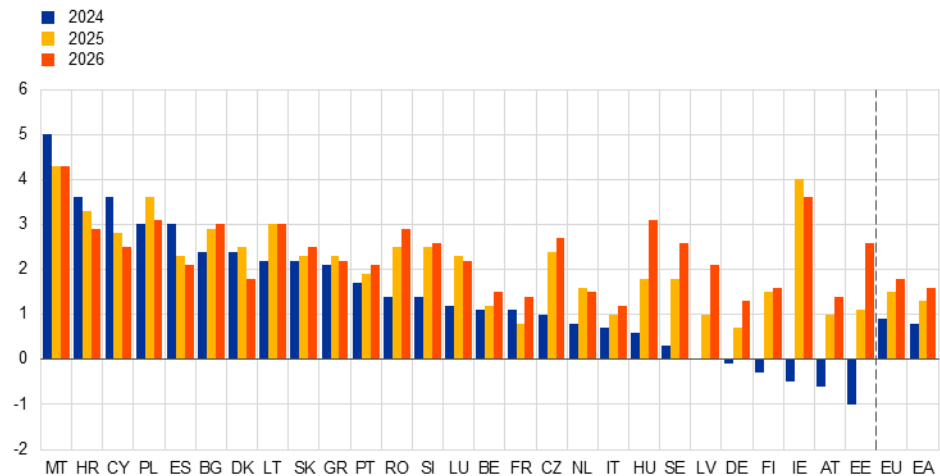
Risk 1. Materialisation of geopolitical and/or macro risks resulting in balance sheet stress for the private sector, notably for non-financial corporations

EU economic growth picked up modestly in 2024, with a continued gradual recovery expected in 2025. Real GDP growth expanded by 0.8% in 2024, marking a modest uptick from the 0.4% growth recorded in 2023 (see Chart 2). This slight recovery was largely due to resilient domestic demand. A robust labour market, combined with easing inflationary pressures, bolstered household real incomes and supported private consumption. Looking forward, the EU economy is expected to continue its gradual, albeit subdued, recovery in 2025. However, the current economic landscape is mired in significant policy and geopolitical uncertainty and thus risks to the growth outlook in the EU are tilted to the downside.

Chart 2

Member State-level and aggregate real GDP growth forecasts for 2024, 2025 and 2026

(annual percentage changes)



Source: European Commission Autumn 2024 Economic Forecast.

Vulnerabilities for non-financial firms remained elevated throughout the review period. In 2024 non-financial firms' profits remained under pressure from high costs and weak demand, while interest coverage ratios remained low. Export-oriented firms began to face significant headwinds late in the year, as exports underperformed amid moderating foreign demand and competitiveness challenges. Overall, the private sector – notably non-financial firms – emerged from 2024 in a more fragile financial position. Smaller firms and those in hard-hit sectors (e.g. energy-intensive industries, construction and some parts of the retail sector) found it more difficult to meet their debt obligations.

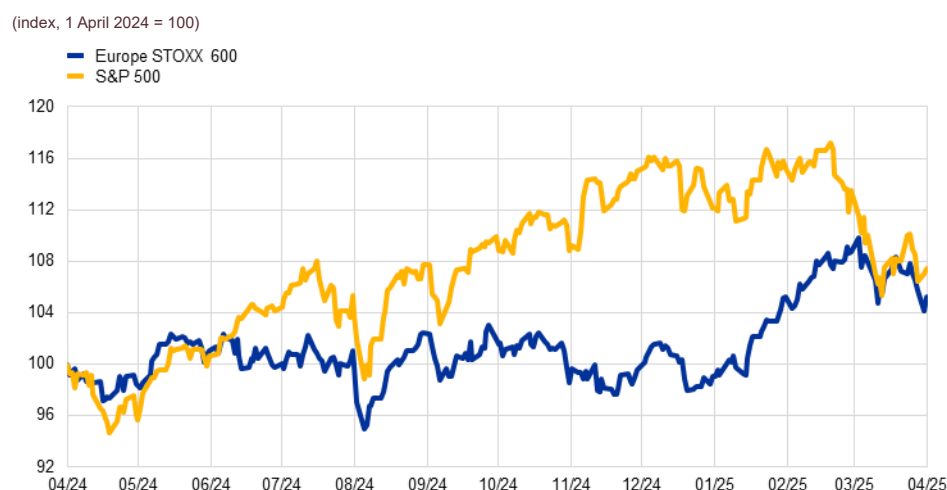
Geopolitical risks remained high while trade policy risks accelerated to historically high levels in early 2025. Russia's war against Ukraine continued to disrupt activity and sentiment, while the conflict in the Middle East led to elevated volatility in the commodity markets. In early 2025 higher trade policy uncertainty contributed to downward revisions of projections for EU exports and investments in the year ahead. A widespread increase in barriers to trade leaves no winners and is likely to lead to significantly lower growth and higher inflation. Such an adverse external environment could heighten balance sheet stress for non-financial corporations in the EU, as rising input costs and softer demand would weigh on corporate earnings (see also Box 1 which discusses the implications of the tariffs implemented by the US Administration in early April).

Risk 2. Materialisation of geopolitical and/or macro risks triggering a disorderly market correction, possibly amplified by the non-bank financial sector

Risk appetite remained strong in the financial markets despite mixed signals about the economic outlook and heightened geopolitical and policy uncertainty. Both US and EU stock prices rose during the review period, bolstered by lower monetary policy rates, easing inflationary pressures and the prospect of significant government investment in key sectors such as defence (see Chart 3). In other markets, gold and bitcoin appreciated considerably during this time, while the sovereign bond markets experienced high levels of volatility. Lower inflation and policy rates exerted downward pressure on long-term government bond yields across the EU. However, in the latter part of the review period, higher long-term inflation expectations in the United States and the prospect of significant government debt issuance to fund increased defence and infrastructure spending in the EU (which should also support economic growth) contributed to the rise in bond yields.

Chart 3

European and US equity market indices



Source: Bloomberg.

Looking ahead, the financial market outlook remains fragile and sensitive to adverse shocks. First, significant escalations of geopolitical tensions could reduce risk appetite, leading to major corrections across global financial markets and depressing economic growth through reduced trade and direct investment (see also Box 1 which discusses the elevated volatility in global financial markets following the tariffs implemented in early April). Second, a more expansionary US fiscal policy, or the roll-out of broad-based and long-lasting trade tariffs, could stoke stagflation fears and push the prices of riskier assets lower. Third, US equity valuations appear stretched according to most standard valuation metrics and any corrections could have spillover effects in European markets. Furthermore, vulnerabilities within the non-bank financial sector could exacerbate adverse market dynamics through forced asset sales, reduced liquidity and procyclical selling behaviour (see Box 2). This risk

is particularly significant for investment funds operating with high leverage levels and limited liquidity buffers.

Box 2

Monitoring systemic liquidity risk

Recent episodes in the global financial system have demonstrated that liquidity can quickly deteriorate, triggering widespread systemic stress. Such liquidity shortages can spread rapidly across markets and entities. They can originate within or be amplified by the non-bank financial sector, as evidenced by the “dash for cash” during the COVID-19 pandemic.

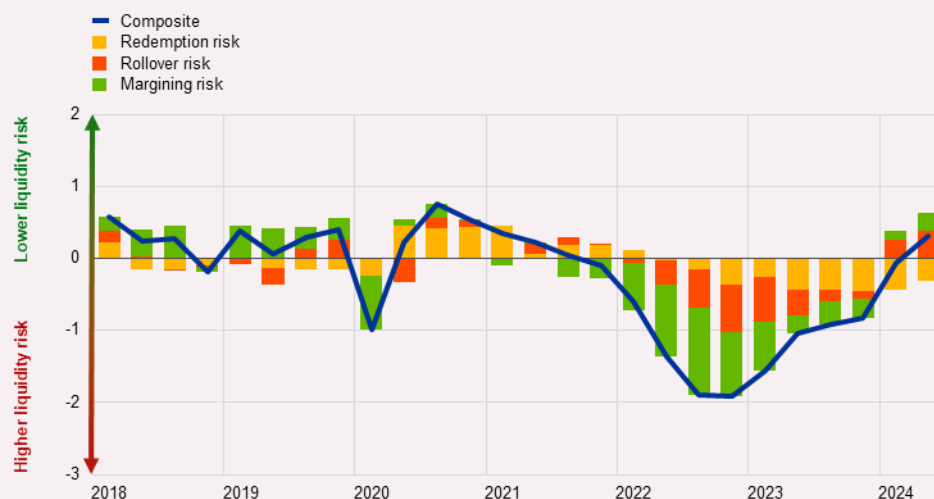
In February 2025 the ESRB published a report entitled “Systemic liquidity risk: a monitoring framework”, establishing a comprehensive framework for monitoring systemic liquidity risks across the EU financial system. The new framework set out in this [report](#) introduces a broad set of indicators that cover funding liquidity risks for banks, insurers, pension funds and investment funds, as well as market liquidity risks across major asset classes, including sovereign bonds, corporate bonds, forex markets and money markets.

Chart A

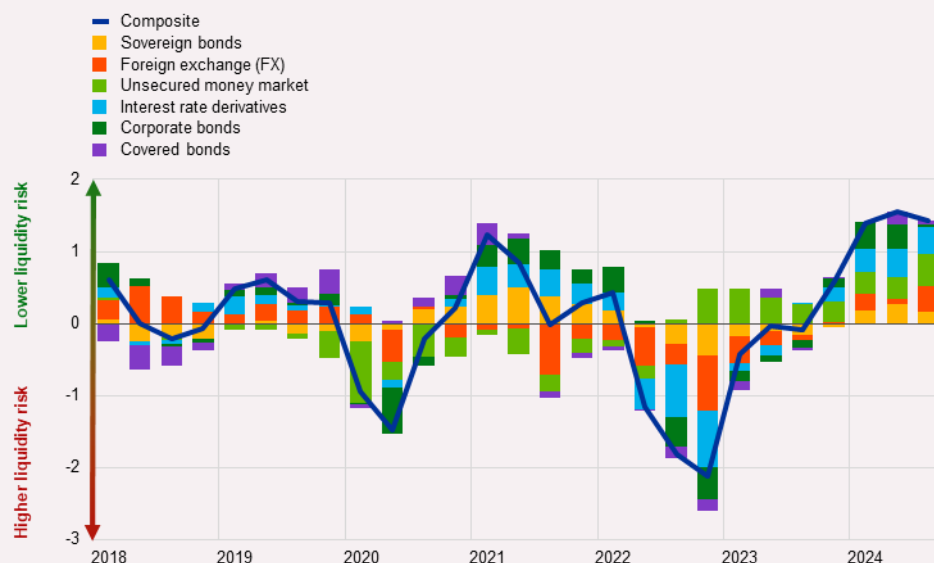
Composite indicators of systemic liquidity risk in the euro area

(x-axis: quarters; y-axis: standardised index)

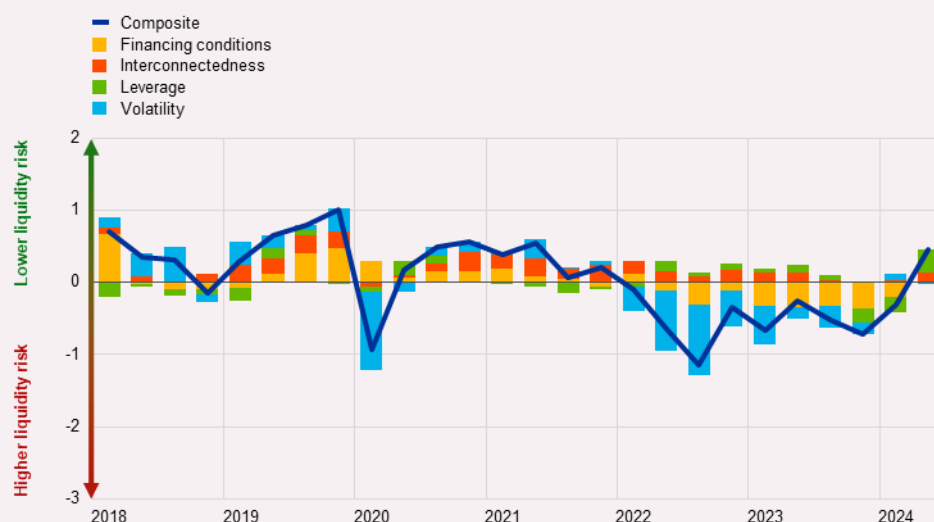
a) Funding liquidity risks



b) Market liquidity risks



c) Contagion and amplification risks



Source: ESRB.

The ESRB's monitoring approach uses standardised composite indicators, benchmarked against historical averages, to promptly identify deviations and potential vulnerabilities. Key liquidity dimensions addressed include funding, liquidity, contagion and amplification risks (see Chart A). This systematic approach, combined with timely updating of the indicators significantly strengthens the ESRB's capability to detect emerging liquidity stresses, thereby supporting effective macroprudential policymaking and improving resilience across the EU financial system.

1.2.2 Elevated systemic risks

Risk 3. Unfavourable growth and debt financing cost dynamics triggered by increased borrowing needs leading to a re-emergence of sovereign debt sustainability concerns

Elevated public debt-to-GDP ratios continue to pose significant vulnerability for several EU countries. High public debt levels, which are partly a legacy of previous adverse shocks, continue to exert pressure on public finances in several EU countries. The EU public debt ratio stood at 81.6% in the third quarter of 2024 (see Chart 4), which is more than 4 percentage points above the pre-pandemic level. The European Commission's 2024 Autumn Economic Forecast projects the EU debt-to-GDP ratio to increase to 83.4% by 2026. As at early 2025, an excessive deficit procedure has been initiated for several countries, including Belgium, France, Hungary, Italy, Malta, Poland, Romania and Slovakia.

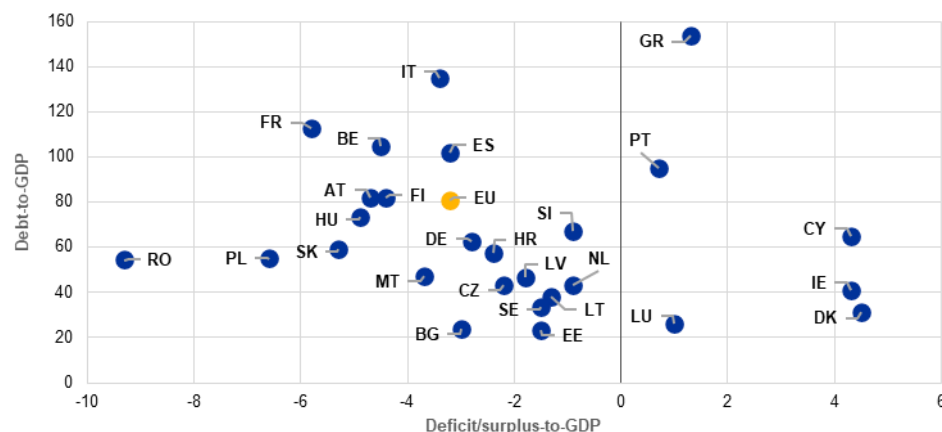
Rising security threats require decisive actions to increase defence spending across Europe, which may, however, raise debt sustainability concerns in some EU Member States. While higher defence spending is expected to support growth through investment and increased public spending, it may also raise financial stability concerns. In particular, in some EU countries with limited fiscal space, substantial increases in defence spending could affect sovereign debt sustainability, which would require close monitoring. Therefore, Member States should carefully consider the financing methods they use to increase defence spending to contain the risks of potential sovereign debt sustainability concerns. It is crucial for Member States to implement prudent fiscal policies and carefully prioritise public spending to maintain stable debt trajectories across the EU. The combination of rising government bond yields and high deficits may place an additional burden on countries that are already dealing with structural fiscal imbalances.

Addressing long-term fiscal challenges will require substantial and sustained budgetary efforts. Significant fiscal resources are also needed to tackle medium and long-term issues such as climate change, an ageing population, debt reduction and, as mentioned above, higher defence spending. To ensure future stability, it is imperative that the framework for economic and fiscal coordination remains robust.

Chart 4

Government debt-to-GDP and government budget deficit/surplus-to-GDP in the EU

(x-axis: percentages; y-axis: percentages; 2024)



Source: Eurostat.

Risk 4. Deteriorating asset quality and funding liquidity risk for the banking sector triggered by adverse macro-financial or geopolitical shocks

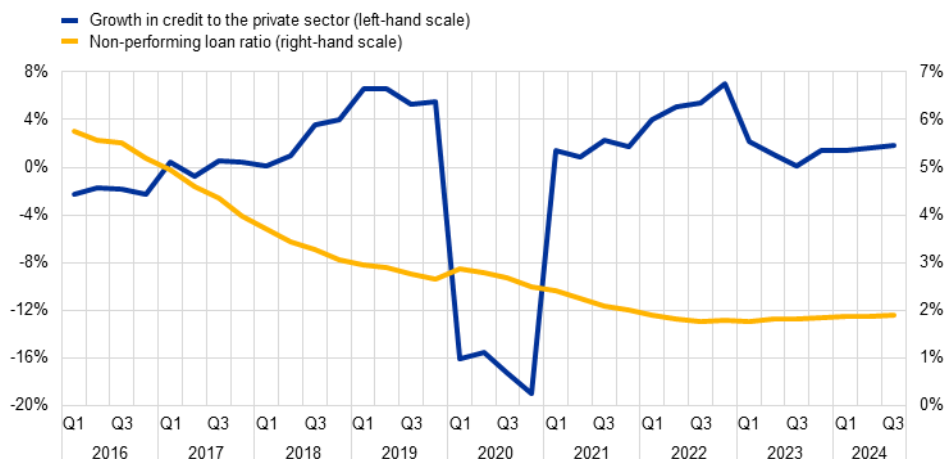
EU banks remained resilient to shocks in 2024. European banks have been making record profits since the start of the monetary policy tightening cycle in 2022, owing to high interest rate margins and low impairment levels, while maintaining solid capital positions. According to data from the EBA risk dashboard, the return on equity of the aggregated EU banking sector stood at 10.5% in the fourth quarter of 2024 (with the third quartile of the distribution by country exceeding 15%) – the highest levels observed since 2014. Banks' net interest income increased significantly in the last two years as higher interest rates were passed on to lending rates, while the remuneration of deposit rates remained low. This was particularly noticeable among smaller banks, which have seen their net interest margins almost double since 2022. With regard to capital adequacy, the fully-loaded CET1 and leverage ratios continued to stand well above their regulatory minimums, with no declining trend observed over the review period.

Looking ahead, as the interest rate cycle has turned in Europe, banks' net interest income is expected to gradually fall, but to still remain fairly robust. In an environment of declining excess liquidity as a result of quantitative tightening measures and more intense competition from other financial products, banks' funding costs may increase. Additionally, a more accommodative monetary policy stance in the EU is expected to decrease the lending rates on bank loans to households and firms, thus reducing banks' margins. On the other hand, lower interest rates are expected to support the demand for bank credit. Survey-based evidence, such as the findings from the ECB's euro area bank lending survey, reports higher expected demand for housing loans and, to a lesser extent, loans to corporates.

Chart 5

Growth in credit to the private sector and non-performing loan ratio in the EU

(left-hand scale: annual growth rates, percentages; right-hand scale: percentage points)



Source: ECB Consolidated Banking Data.

Non-performing loans (NPLs) and other asset quality indicators remained at relatively low levels in the EU banking system, while credit risk rose slightly in sectors such as SMEs and CRE. The share of NPLs on the balance sheets of EU banks has remained stable, at slightly below 2%, since 2022 (see Chart 5). The stability of the NPL ratio in the EU banking system masks certain differences across Member States, with some countries reporting moderate increases in NPLs in 2024. Across loan portfolios, and consistent with the data on insolvencies, there have been slight increases in the amount of NPLs among loans granted to small and medium-sized enterprises (SMEs) and CRE companies. When considering other measures of asset quality, such as forbearance or the share of loans classified as IFRS 9 Stage 2, there are no clear indications of a significant deterioration in asset quality that could threaten the overall solvency of the EU banking system. However, the coverage ratios of Stage 2 loans in some EU countries could be signalling a potentially low level of accumulated provisions that requires careful monitoring.

Increased geopolitical risks and a higher incidence of cyberattacks are relevant threats to the operational resilience of the EU banking sector. The materialisation of possible risks – such as macro-financial or geopolitical shocks, potentially combined with an asset price correction – could expose vulnerabilities in EU banks. In such an adverse scenario, funding risks could rise steeply, leading to increased deposit outflows, while banks' asset quality could deteriorate sharply, especially for those with high exposure to firms with significant exports to the United States and areas such as CRE, SMEs and consumer loans. Furthermore, cyberattacks and acts of hybrid warfare could create disruptions in the financial system and potentially prevent banks from providing financial services.

Risk 5. Adverse macro-financial developments leading to a materialisation of vulnerabilities in the real estate sector, particularly in the CRE sector

Residential real estate (RRE) prices rebounded across Member States in 2024, following a period of either subdued growth or downturn. The tightening of financial conditions in 2022 and 2023 was associated with an orderly correction in EU house prices. In 2024 lower inflation and more favourable lending conditions supported the purchasing power of EU households and contributed to a turnaround in RRE prices. The overall price index rose to levels that surpassed the previous peak reached during the pandemic (see Chart 6). Consistent with the higher RRE prices, mortgage lending slowly picked up, ending 2024 with a 6% increase in new business originations compared with 2023 at the euro area level, fuelled by higher loan demand. Meanwhile, construction of buildings in the EU trended downward, with production output contracting by 1% in 2024 compared with the previous year.

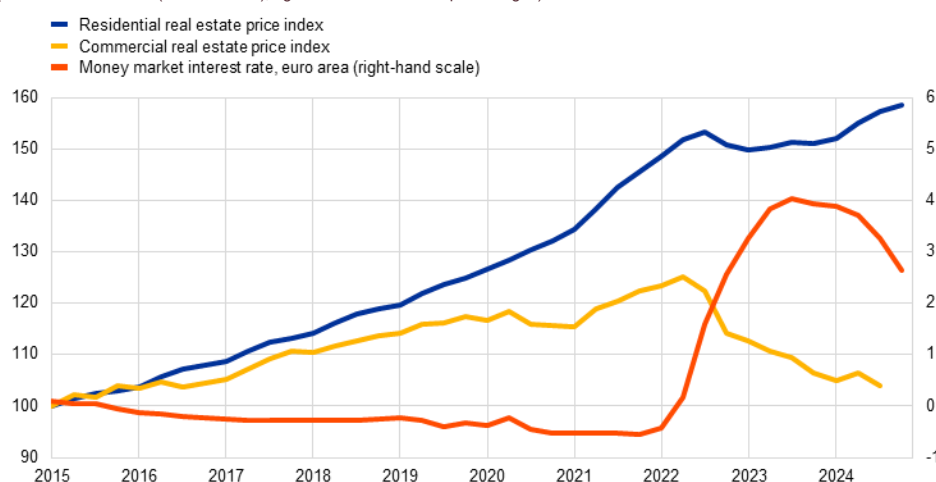
Cyclical and structural risks in the RRE market require careful monitoring.

Recent developments suggest that the probability of further significant corrections in the RRE markets has been reduced. The increase in house prices and mortgage lending in 2024 indicate the start of a new growth cycle in the housing market. However, the current macroeconomic environment remains highly uncertain and deteriorating economic conditions could revive the risk of a downturn in the RRE markets. Although the price correction in 2023 erased some of the existing price overvaluation, it did not fully mitigate the structural vulnerabilities that were already present, such as the high level of household indebtedness in some countries. Structural factors may act as amplifiers if risks outside the RRE sector were to materialise that could affect the capacity of households to service their debt.

Chart 6

Annual growth rates of residential and commercial real estate prices in the EU and six-month EURIBOR

(left-hand scale: index (2015 Q1=100); right-hand scale: annual percentages)



Sources: Eurostat and ECB.

The CRE sector showed some signs of stabilisation at the end of 2024, but downside risks remain significant. Following a prolonged period of substantial contraction, the downtrend in CRE property prices stabilised in 2024. In the third quarter of the year, annual price growth remained in negative territory, while CRE prices contracted at a slower pace than during the steep decline observed in mid-2023. In terms of quantity, transaction volumes increased slightly in 2024 compared with 2023, but they were still significantly lower than before the start of the monetary tightening period. Total transaction volume in 2024 was 40% smaller than in 2022, with the decline being consistent across all major property types and countries. While sentiment indicators suggest generally subdued momentum, they are cautiously signalling higher overall demand for CRE properties in some countries, given the improved conditions. Future value growth expectations are different for prime and non-prime properties.

Vulnerabilities in the CRE markets remain significant, as they continue to be adversely affected by a combination of structural and cyclical factors. While lower interest rates have alleviated some immediate pressures, many CRE companies continue to face operational challenges, in particular related to the transition to more environmentally efficient buildings. The risk outlook largely hinges on the ability of companies to address these operational issues and the broader economic outlook, characterised by elevated uncertainty.

1.2.3 Systemic risks

Risk 6. Disruptions of critical financial infrastructure, including central counterparties

Central counterparties (CCPs) remained overall resilient in the reporting period. The CCP risk indicators for 2024 did not signal rising financial stability concerns. Aggregated prefunded resources to cover the risk from central clearing remained stable over the last four quarters and there were no defaults by clearing members. Temporary bouts of volatility and heightened uncertainty led to some large margin calls, although there were no reports of substantial liquidity squeezes affecting clearing members or clients.

CCP stress test results confirm the resilience of the EU CCPs, but ESMA notes that a significant amount of the stressed variation margin calls could be passed on to clients. In July 2024 ESMA published the results of its fifth CCP stress test. The results confirm the overall resilience of 14 EU CCPs, as well as two UK CCPs, to credit and liquidity risks under the tested scenarios. The analysis shows that under stressed conditions the largest liquidity demands from variation margin calls fall on the largest financial groups. While these groups should have access to liquid resources, ESMA also noted that a significant amount of the stressed variation margin calls will be passed on to non-bank financial intermediaries. It is imperative that all market participants are informed about the

behaviour of margin models during times of stress and prepare properly to meet margin calls.

A shorter settlement cycle frees up collateral. In May 2024 the settlement cycle for US stocks and exchange-traded funds (ETFs) was shortened from two days to one day.⁷ In principle, a shorter settlement cycle is beneficial for financial stability, as lower reserves for crisis situations in the form of margins have to be held (making it cheaper to invest in the security markets) and fewer transactions are unsettled, meaning a less disorderly rebalancing of positions in the event of default by a market participant.

1.2.4 Cross-cutting financial stability risks

System-wide cyber incidents

Risks to financial stability from cyber and hybrid incidents remained high in the past year. Banks subject to the Single Supervisory Mechanism (SSM) report that the number of cyber incidents affecting credit institutions increased further in 2024 to reach their highest level since the data were first collected. Looking ahead, risks for system-wide cyber incidents remain high, especially in the current geopolitical context. Large-scale cyber incidents have the potential to impair key economic functions, erode trust and exacerbate preexisting vulnerabilities. The use of AI to carry out more sophisticated cyberattacks is expected to increase. AI will not only enable the defenders of financial institutions to monitor their systems more effectively, but attackers will also be able to take advantage of AI's capabilities. Thus, these new attack vectors will require significant attention in the future. Ongoing geopolitical tensions may have an adverse effect on the persistently heightened cyber-threat environment in Europe. The ESRB has been actively involved in the design of tools to mitigate cyber risk. It issued a report on this matter during the review period and assisted the ESAs in setting up a pan-European systemic cyber incident coordination framework (see Section 2.1.4. for a description of this policy work).

The European financial system was not directly affected by hybrid threats but remains vigilant given its interconnectedness with critical infrastructure. The hybrid incidents that occurred during the review period were concentrated in the Nordic-Baltic region. Vessels primarily targeted critical infrastructure such as undersea cables that are essential for the functioning of the financial system. Furthermore, Russian disinformation campaigns sought to influence EU and German elections and cause political instability. European financial stability is anchored in

⁷ The European Commission has also recently proposed shortening the settlement period for EU transactions in transferable securities from two days (T+2) to one day (T+1). See [Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation \(EU\) No 909/2014 as regards a shorter settlement cycle in the Union](#).

institutional and political stability. Looking ahead, geopolitical dynamics will play a key role in the evolution of hybrid threats.

Climate-related financial stability risks

Large – and potentially systemic – losses could affect financial institutions as a result of their direct and indirect exposures to physical and transition risks related to global warming and other environmental risks. A warmer climate may also trigger price corrections in “stranded assets” and higher losses stemming from natural disasters. Overall, authorities urgently need to develop tools to better monitor and assess climate-related financial stability risks. To this end, in April 2024 the ESRB published a report on how climate-related risks should be reflected in IFRS-based financial statements.⁸

Geopolitical tensions

Risks arising from geopolitical tensions increased over the review period (see also Box 3). A surge in geopolitical tensions could trigger several of the key risks outlined above. It could prompt broad-based corrections in asset prices and lead to a rise in credit, interest rate and liquidity risks. In an adverse scenario, the global financial system could be significantly affected by falling asset prices, sharp increases in commodity prices, tighter market/funding liquidity conditions, as well as trade and supply chain disruptions.

Box 3

Trade and financial ties with geopolitically distant countries

The risk landscape in the EU was significantly affected by unconventional risks related to growing trade and geopolitical tensions in 2024. As a result, authorities have had to integrate new indicators into their existing risk assessment toolkits. One type of risk indicator that has been developed consists of exposure-based geopolitical measures across countries and sectors.

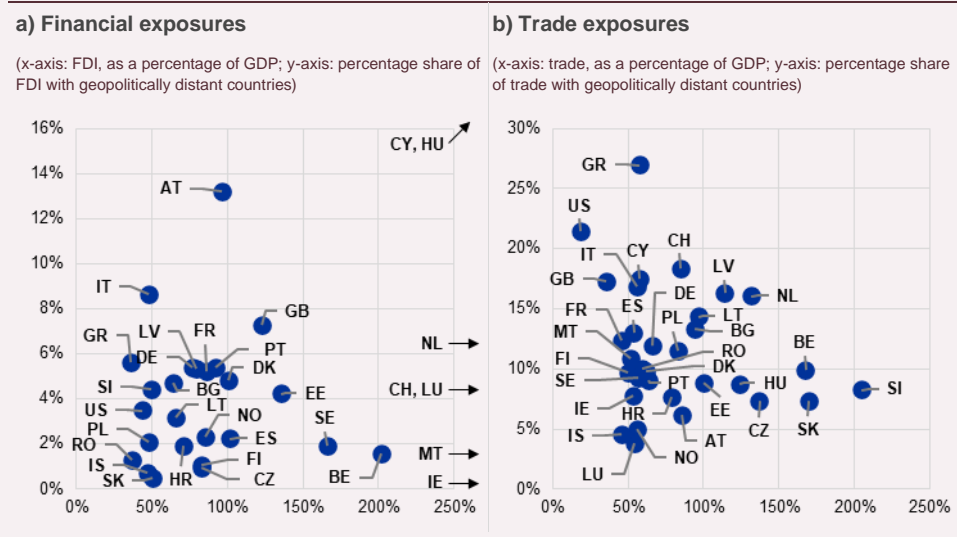
This box presents an indicator employed by several financial stability authorities that enables them to gauge economic and financial exposures to “geopolitically distant” countries. The indicator makes use of voting patterns in the United Nations. Countries with significantly different voting patterns from EU Member States are defined as geopolitically distant (see Bailey et al., 2017; Javorcik

⁸ See “Climate-related risks and accounting”, European Systemic Risk Board, April 2024.

et al., 2022 and Borin et al., 2023).^{9 10} Once the geopolitically distant countries have been identified, financial and trade exposures to these countries can be assessed.¹¹ The hypothesis is that increased financial and trade exposures to geopolitically distant countries may amplify the adverse effects of geopolitical shocks, thereby exacerbating vulnerabilities within these economies.¹²

Chart A

Financial and trade exposures to geopolitically distant countries in 2023



Sources: IMF and ESRB calculations.

Notes: "Geopolitically distant" countries are defined as the top tercile of geopolitical distance to EU Member States in 2023. Foreign direct investment (FDI) values are taken as the sum of inflows and outflows from the reference countries vis-à-vis foreign counterparties in 2023. Trade values are taken as the sum of imports and exports of goods in 2023. The relative positioning of the countries is generally robust to the inclusion of imports and exports of services. The trade values for Malta also include the cost of insurance for transit and the freight costs for transporting goods.

⁹ Bailey, M., Strezhnev, A. and Voeten, E., "Estimating Dynamic State Preferences from United Nations Voting Data", *Journal of Conflict Resolution*, Vol. 61, No 2, 2017, pp. 430-56.
Javorcik, B., Kitzmueller, L., Schweiger, H. and Yildirim, A., "Economic Costs of Friend-Shoring", *CESifo Working Paper*, No 10869, 2022.

Borin, A., Cariola, G., Gentili, E., Linarello, A., Mancini, M., Padellini, T., Panon, L. and Sette, E., "Inputs in Geopolitical Distress: A Risk Assessment Based on Micro Data", *Banca d'Italia Occasional Paper*, No 819, 2023.

¹⁰ The data include the votes in the United Nations General Assembly sessions from 1 to 78 (1946-2023). The voting preferences for each country for each session are included. In terms of key matters voted on during the session, the authors identify the following six main categories: colonialism, the Middle East, nuclear issues, disarmament, human rights and economic issues. A vote could fit into multiple categories or none. Based on these categories, the identification does not identify the United States as a geopolitically distant country. The financial stability implications of the significant trade restrictions imposed by the US Administration are discussed separately in Box 1.

¹¹ The countries in the top tercile of geopolitical distance to the EU (geopolitically distant countries) according to 2023 United Nations voting patterns are: Afghanistan, Algeria, Angola, Azerbaijan, Bahrain, Bangladesh, Belarus, Bolivia, Brunei, Burkina Faso, Burundi, Cambodia, China, Comoros, Congo, Cuba, Djibouti, Egypt, Equatorial Guinea, Eritrea, Gambia, Ghana, Guinea-Bissau, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Laos, Lebanon, Lesotho, Libya, Madagascar, Malaysia, Maldives, Mali, Mauritania, Mongolia, Namibia, Nicaragua, Niger, Nigeria, North Korea, Oman, Qatar, Russia, Sao Tome and Principe, Saudi Arabia, Senegal, Somalia, South Africa, Sri Lanka, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, Vietnam and Zimbabwe.

¹² An important caveat in this exercise is that a geopolitical distance does not necessarily shield against disruptions in trade and financial ties, as these may also be triggered by events such as trade wars, supply chain disruptions or pandemics. However, the strong military, diplomatic and strategic ties characterising relationships with geopolitically close countries are important mitigating factors for the magnitude and/or duration of such shocks.

Most countries in the EU have relatively moderate financial and real economic linkages to geopolitically distant countries. The panels in Chart A illustrate the financial and real linkages across the EU. Inward and outward foreign direct investment (FDI) is used as a proxy for financial linkages, while the volume of imports and exports is used to proxy for trade linkages. In both panels, the x-axis measures FDI and trade exposures as a percentage of GDP, while the y-axis measures the share of FDI and trade to the identified geopolitically distant countries. The analysis reveals that while most countries are clustered around the bottom-left part of these charts – indicating relatively low levels of both general and specific linkages to geopolitically distant countries – there are several outliers. These outliers are distinguished not only by their overall financial and trade openness but also by their significant exposure to the countries identified as geopolitically distant. The findings underscore the importance of monitoring these countries closely, as their significant exposure to geopolitically distant nations may render them more vulnerable to the adverse effects of geopolitical shocks.

1.3 Regular risk monitoring and risk assessment activities

The ESRB continued its regular monitoring activities and provided adverse scenarios for the stress-testing exercises carried out by the ESAs. Section 1.3.1 describes the adverse scenarios that the ESRB provided to ESMA and to the EBA, which were published during the review period for this Annual Report. It also describes the scenario developed for a system-wide climate stress test, as well as the progress made on developing a liquidity stress test covering the EU financial system. Section 1.3.2 includes several boxes summarising the ESRB's risk monitoring and/or assessment of certain non-bank financial institutions (see Box 4) and synthetic securitisation (see Box 5).

1.3.1 Stress test scenarios

Stress tests help assess the resilience of the financial system. They simulate the resilience of financial institutions under hypothetical adverse economic and financial conditions, aiding in risk management and crisis prevention. In accordance with their mandates, the ESAs are required to coordinate, in conjunction with the ESRB, the stress-testing exercises at the EU level falling within their remit. These exercises help regulators and supervisors to test the resilience of individual financial institutions, while they also help to identify risks and vulnerabilities in the financial system as a whole. As part of this cooperation, the ESRB, with technical support from the ECB, provides the adverse scenarios for these exercises. Each scenario reflects the ESRB's assessment of the risks and key vulnerabilities in the financial system at the relevant point in time.

The ESRB provided three adverse scenarios for the sectoral stress tests over the review period, each tailored to the needs of the ESA coordinating the stress test.¹³ Each scenario is tailored to encompass the business models and risk profiles of the various types of financial institution covered by the specific stress-testing exercise. In reflection of this, the scenarios were designed in close cooperation with the relevant ESA and extensively discussed with the ESRB member institutions.

In December 2024 the ESRB provided ESMA with the adverse scenario for the 2024 MMF stress-testing guidelines. The narrative of the scenario reflects an aggravation of geopolitical tensions amid heightened uncertainty stemming from multiple conflicts worldwide. This leads to rising commodity prices and inflation, which triggers market expectations of higher market interest rates, leading to a spike in asset price volatility triggered by tightening financing conditions and weaker macroeconomic prospects. Amid significant disruptions in the financial markets, corporate and sovereign bond spreads are particularly affected. Overall, this environment leads to an abrupt slowdown in market activity and to significant liquidity stress, forcing markets to suddenly revalue financial assets and re-evaluate real estate downwards.

In January 2025 the ESRB provided the adverse scenario for the 2025 EU-wide banking sector stress test exercise coordinated by the EBA. The scenario for the exercise includes a macro-financial scenario stretching over a three-year period and a market risk component with a three-month horizon. The narrative of this scenario is similar to that described above, building on a severe escalation of geopolitical tensions, accompanied by increasingly inward-looking trade policies on a global level. Key features of the scenario are the substantial widespread correction in asset prices and the severe decline in GDP over the horizon. This is driven by persistent large, negative trade and confidence shocks with strong adverse effects on private consumption and investments, both domestically and globally. Initial inflationary pressures deriving from disruptions in the supply chain and energy price increases are eventually mitigated by the persistent drop in demand. The scenario is more severe than the 2024 scenarios used by the Bank of England and the Federal Reserve System, which in part reflects the distinct cyclical and structural characteristics of the domestic economy under stress.

At the end of the review period, in March 2025, the ESRB provided EIOPA with two adverse scenarios for the 2025 Institutions for Occupational Retirement Provision (IORPs) stress test. The stress test focuses on liquidity risk and incorporates two distinct stress scenarios designed to assess the liquidity vulnerabilities of IORPs in the event of a large upward shift and a large downward shift in interest rates. The scenarios are calibrated to imitate some key features of the gilt crisis that occurred in September 2022 which caused liquidity stress in UK pension funds. The narrative of the scenarios also reflects a materialisation of geopolitical risk, as described above. In the “yield curve up” scenario, supply-side trade disruptions and commodity price hikes result in inflationary pressures and an

¹³ The ESRB publishes all the scenarios used for these regulatory stress tests. See the [Stress testing](#) page on the ESRB's website for further details.

upward shift in swap rate curves. Conversely, the “yield curve down” scenario sees demand-side issues and a loss of confidence in the financial markets resulting in a downward shift in swap rate curves. Both scenarios see a deterioration of the economic outlook and result in severe financial stress, disorderly adjustments in asset prices and substantial increases in sovereign and corporate risk premia. Overall, the “yield curve down” scenario is more severe, reflecting a stronger and more persistent economic downturn.

In addition to providing the sectoral scenarios described above, the ESRB developed three scenarios for a one-off system-wide exercise – the “Fit-for-55” climate risk scenario analysis. The European Commission invited the ESAs and the ECB to assess the resilience of the EU financial sector to withstand climate-related shocks and to support the green transition, even under conditions of stress. The exercise was run in a top-down fashion, considering the financial system as a whole, covering the EU banking, investment fund, IORP and insurance sectors. The ESRB provided a baseline scenario and two adverse scenarios. Under the baseline scenario, the economy and the financial system evolve according to macroeconomic and financial conditions that facilitate an orderly green transition. The two adverse scenarios set out paths for key economic and financial variables in hypothetical adverse situations triggered by the materialisation of climate-related and/or macro-financial risks. The scenarios were finalised at the end of 2023. They were published in November 2024 during the review period – along with the results of the exercise – by the ESAs and the ECB.¹⁴

To better understand the system-wide dynamics of liquidity risks, the ESRB developed a liquidity stress test that covers the entire EU financial system. The objective of this exercise is to understand interconnectedness across and within EU sectors and to quantify the impact of an aggregate liquidity shock in the EU. The exercise covered banks, investment funds and insurance corporations within the EU. The system-wide liquidity stress test consisted of two legs each utilising a top-down stress-testing model, integrating both EU-wide and national perspectives. The first leg was based on existing systemic liquidity stress test models in different jurisdictions, building on entity-level data. The second leg involved the development of a stress test tool allowing simulations to be conducted jointly for several countries across financial sectors. The results suggest that an adverse liquidity stress scenario, reflecting tensions observed in recent years, could lead to downward pressure on asset prices and further amplify the initial liquidity tensions. A deeper understanding of cross-sectoral and cross-asset exposures within the EU financial system will offer the ESRB better insights into the conditions that could lead to an abrupt liquidity shortfall in the financial markets and its broader economic repercussions. The ESRB General Board discussed the findings from this system-wide liquidity exercise in November 2024. The work has been documented in an Occasional Paper that will be published after the review period.

¹⁴ The results are discussed in a joint report published by the ESAs and the ECB. See the [press release](#) on the ECB's website for further details.

1.3.2 Monitoring certain non-bank financial institutions and securitisation markets

The ESRB monitors and assesses risks in certain non-bank financial institutions and is mandated by law to monitor risks to financial stability from securitisation markets. These activities complement the broader risk monitoring outlined in Section 1.1. The boxes in this section describe these activities in greater detail.

Box 4

Monitoring risks relating to non-bank financial intermediation

The EU NBF Risk Monitor 2024 report summarises the ESRB's monitoring of systemic risks and vulnerabilities relating to non-bank financial intermediation in 2023; the report, which was published in June 2024, highlights three such risks and vulnerabilities. First, the excessive use of leverage can amplify liquidity and market risk, in addition to transmitting and magnifying shocks to the financial system. This edition of the report emphasises that high leverage, which is typically associated with alternative investment funds, can also build up in undertakings for collective investment in transferable securities (UCITS). For example, it shows that UCITS that pursue hedge fund-like strategies can reach leverage of over 300%. Second, it focuses on interconnectedness, which can amplify and propagate risks throughout the financial system. Cross-exposures within the investment fund sector (i.e. investment funds holding units in other investment funds) have risen in recent years. This creates long intermediation chains and increases complexity in the financial system. Third, investment funds and other financial institutions have a large footprint in many financial markets and there is a high degree of portfolio overlap between institutional investors. In times of stress, such concentrations can amplify asset price falls and cause liquidity conditions to deteriorate.

To support risk identification, the NBF Risk Monitor includes three special features. The first special feature examines the ownership structure of management companies of EU-domiciled investment funds. It shows that most EU fund managers are affiliated with banking groups, unlike in the United States where asset managers tend to be independent. It concludes that from a financial stability perspective, such ownership links can cause reputational and step-in risks. For example, in 2023 funds managed by Credit Suisse experienced outflows likely driven by investors concerned about the stability of the bank, even though fund assets are ringfenced in the event of insolvency of the asset manager or the parent company. The second feature provides an overview of the private finance market in the EU. It highlights vulnerabilities related to leverage, interconnectedness and valuation uncertainty. For example, high leverage makes portfolio companies vulnerable to a deterioration in economic growth and to tighter financing conditions. It concludes that private finance poses no immediate systemic risk in the EU but cautions that its rapid growth could

elevate its systemic relevance. The third feature explores the international dimension of EU-domiciled MMFs. It emphasises that a large portion of EU-domiciled MMFs are denominated in non-EU currencies such as the US dollar and pound sterling. These funds have a global dimension: they attract investors from outside the EU, offer more financing to non-EU issuers and borrowers than to EU entities and play a major role in short-term funding markets outside the euro, especially in pounds sterling. It concludes that because of the global nature of MMFs, the EU's less stringent prudential regulations relative to those in the United States and the United Kingdom could compromise financial stability, as funds may be more susceptible to transmitting shocks from one market to another.

Box 5

Monitoring risks in the EU securitisation market

In March 2025 the ESRB General Board discussed and approved a report considering the impact on financial stability of the extension of the Simple, Transparent and Standardised (STS), criteria to “on-balance-sheet”

securitisation. The EU securitisation regulation (SECR) assigns the macroprudential oversight of the EU's securitisation market to the ESRB. In 2021, following amendments to the SECR, the ESRB was given a mandate to assess the impact on financial stability of the extension of the STS criteria to on-balance-sheet securitisations and publish its findings in a report. Unlike traditional “true-sale” securitisation, in on-balance-sheet securitisations, the loans remain on the originator's balance sheet and the credit risk is transferred to investors through a credit protection agreement. The report was published after the end of the review period.

The report concludes that the extension of STS criteria to on-balance-sheet securitisations has not resulted in significant risks to financial stability. This conclusion is based on four key elements. First, the loan portfolios underlying STS on-balance-sheet securitisations are small compared with the balance sheets of the originating banks. Second, the credit protection provided by private investors is required to be funded, thereby mitigating counterparty risk. Third, the credit quality of these loans appears to be robust. Finally, most of the risk is transferred to investment funds and pension funds, which are primarily domiciled outside the euro area.

The report cautions that this assessment might change in the light of market and regulatory developments. Specifically, the report notes that an expansion of the market would also require the risks from procyclical effects and interconnectedness to be monitored and assessed. Procyclical effects could arise from a reassessment of risk weights or from rollover risk, both of which can have an impact on regulatory capital requirements during severe economic downturns. Interconnectedness enables risk to spread throughout the financial system, potentially creating a contagion channel if these interconnections are opaque and

therefore challenging to monitor and assess. Finally, the report also notes that any regulatory changes to the STS framework should be thoroughly assessed to ensure that no new sources of systemic risk are introduced.

2 ESRB policies addressing systemic risk

Over the review period the ESRB continued to work on several important cross-sectoral and cross-border policy topics. A system-wide perspective is central to the ESRB's mandate of macroprudential oversight of the financial system within the EU to contribute to the prevention or mitigation of systemic risks to financial stability.¹⁵ This approach is reflected in a conceptual framework developed by the ESRB in response to the European Commission's consultation on the adequacy of macroprudential policies for non-bank financial intermediation. The ESRB applied this conceptual approach to three activities that it considers important for financial stability – asset management, clearing and lending. In its response to the Commission, the ESRB also made cross-sectoral policy proposals to help address risks to financial stability from crypto-assets and crypto activities, as well as margin calls. In addition, the ESRB continued to work on policy proposals to help prevent or mitigate some of the risks described in Section 1. This includes risks to financial stability from system-wide cyber incidents, as well as risks arising from CRE and RRE activities. This system-wide policy work is summarised in Section 2.1 below.

In parallel, the ESRB further developed its sector-specific policies, given that these also support the overall stability of the system. For the banking sector, this included using the stance framework created to support macroprudential decision-making across the ESRB membership. The ESRB and the ECB also published a joint report in January 2025 aimed at obtaining deeper knowledge of the implementation of positive neutral approaches to setting CCyBs in Europe. This work is summarised in Section 2.2 below. To enhance the resilience of non-banks, the ESRB proposed changes to some of the prudential rules the co-legislators had agreed on during the previous review period. The ESRB also provided advice to EIOPA and ESMA on macroprudential aspects of certain level 2 and level 3 texts being drafted by the ESAs to implement the new prudential rules. This included proposals and advice concerning the prudential rules for CCPs, investment funds and insurers. This sector-specific policy work is summarised in Section 2.3 below.

2.1 Addressing the build-up of vulnerabilities and risks across the financial system

The ESRB continued to work on several important cross-sectoral and cross-border policy topics. Specifically, as part of its response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation, the ESRB made several policy proposals that reflect a system-wide approach and thus extend beyond non-banks (see Section

¹⁵ See Regulation 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.2.2010, p.1).

2.1.1). These policy proposals also include measures to help address risks to financial stability from crypto-assets and crypto activities (see Section 2.1.2) and margin calls (see Section 2.1.3). In addition, the ESRB continued to work on policy proposals to help prevent or mitigate the risks to financial stability from system-wide cyber incidents (see Section 2.1.4), risks arising from developments in CRE and RRE (see Section 2.1.5) and risks arising from volatility in interest rates (see Section 2.1.6). The remainder of this section describes the ESRB's work in these areas in greater detail.

2.1.1 A system-wide approach to macroprudential policy

In November 2024 the ESRB published a report setting out a system-wide approach to macroprudential policy and pinpointing areas for legislative action by the European Commission.¹⁶ The report is the ESRB's response to the Commission's targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation. It provides a conceptual framework that combines the prevailing focus on entities with a focus on activities, thereby taking a system-wide approach to macroprudential policy. A key aspect of this approach is that it considers the vulnerabilities and risks in the context of the business model of each entity type. In its report, the ESRB encourages the Commission to make use of this system-wide approach in its regular reviews of legislation or when considering new legislation.

The ESRB has taken this system-wide approach with regard to three activities: asset management, clearing and lending, and has made policy proposals for the medium term. The ESRB selected these activities because they have a significant actual or potential cross-border dimension and it therefore believes their resilience will be pivotal to a successful savings and investment union. With regard to asset management, the report notes that this activity is performed in various forms by several entities, some of which are exposed to similar vulnerabilities to investment funds. Current regulation does not sufficiently account for their potential impact on financial stability and some entities are not subject to any EU-wide prudential regulation. To address this, the report calls on the European Commission to consider expanding the regulatory perimeter and introducing reporting requirements for more opaque forms of asset management. With regard to clearing, the report notes that government bond cash and repo markets have experienced several episodes of illiquidity and dysfunction in recent years. A move to increase central clearing in these markets might reduce the incidence and/or severity of such episodes. To address this, the report calls on the European Commission to consider introducing margin requirements in bilaterally cleared government bond cash and repo transactions to remove disincentives to central clearing and find ways to facilitate the central clearing of such transactions. With regard to lending, the report notes that lending – in the form of loans or the purchase of debt securities – is increasingly being undertaken by non-banks. This means that any macroprudential measures to

¹⁶ See “A system-wide approach to macroprudential policy”, European Systemic Risk Board, November 2024.

address excessive credit growth or overindebtedness may not suffice if they are only directed at banks. To address this, the report calls on the European Commission to consider establishing an activity-based regulation that would enable authorities to set BBMs and exposure concentration limits on highly indebted firms, independently of whether the lending is carried out by banks or non-banks.

The ESRB's report also points to areas where the ESRB has previously highlighted gaps that require legislative action to be taken in the near term.

Some of these actions would need to be system-wide: (i) clarification of the regulatory perimeter for crypto activities in the Markets in Crypto-Assets (MiCA) Regulation and harmonisation of the classification of crypto-assets across Member States; and (ii) implementation of proposals and recommendations on margining from international bodies to ensure liquidity preparedness for margin calls. These actions are described in greater detail in Sections 2.1.2 and 2.1.3. Other actions are sector-specific – notably the need to address vulnerabilities in EU MMFs and to develop the work on addressing vulnerabilities in investment funds. These are described in more detail in Section 2.3.

The ESRB's report also considers two operational elements of the macroprudential framework that cut across non-bank financial institutions – data and coordination. With regard to data, the report stresses that to address risks to financial stability, authorities need (i) more comprehensive and better quality data, (ii) easier access to data, and (iii) more resources to analyse data. The report further stressed the need for legislators to remove legal obstacles that obstruct enhanced data sharing within the European System of Financial Supervision. With regard to coordination, the report invites the European Commission to review the existing arrangements for policy cooperation across the EU and to assess and work on establishing the conditions to enable the ESAs to supervise the most systemically relevant cross-border actors in their financial markets. It also suggests that the Commission consider how reciprocity under Article 25 of the AIFMD could be implemented.

2.1.2 Crypto-assets and decentralised finance

The ESRB's 2024 report entitled “A system-wide approach to macroprudential policy” features a policy digest on crypto-assets and decentralised finance and highlights avenues for potential future regulatory action. As part of the response to the European Commission's consultation on the adequacy of macroprudential policies for non-bank financial intermediation, a policy digest examined the parallels between crypto-assets and traditional finance. Key crypto-asset activities – including crypto-asset management, centrally cleared products, crypto lending as well as deposit-like and payment services – present vulnerabilities and risks that are similar to those found in traditional finance. The policy digest also outlines the lack of harmonisation across the EU in classifying crypto-assets as such under the MiCA Regulation or as financial instruments. This stems from the lack of a common application of the definition of “financial instrument” under the Markets in Financial Instruments Directive (MiFID). Therefore, although the report acknowledges the

efforts made by ESAs to ensure consistency in the regulatory classification of crypto-assets and tokenised financial instruments by market participants and competent authorities, it deems it necessary to amend the relevant level I legislation to standardise the classification of financial instruments and crypto-assets throughout the EU. In the report, the ESRB also suggests a legislative review of the MiCA Regulation aimed at addressing unregulated activities such as crypto lending and fully decentralised finance.

Since its full entry into force on 30 December 2024, the MiCA Regulation has positioned Europe as a standard-setter in the global crypto market, although its full implementation remains a work in progress. MiCA marks a significant step towards uniform market rules for crypto-assets in Europe and for their related activities that do not currently fall within the scope of existing financial legislation (including financial instruments under MiFID). The different transitional periods adopted by Member States (the latest of which ends in July 2026) are a key challenge, which requires close cooperation among national authorities and the engagement of the European authorities to support supervisory convergence.

The ESRB has been following up on the 2023 report and is using its findings as a starting point to further explore various topics, while monitoring market developments. While the 2023 report¹⁷ concluded that the systemic implications of crypto-assets were limited and that there were few links with traditional finance thus far, the ESRB maintains the view that authorities should strengthen their capacity to more effectively monitor developments in the crypto ecosystem and their potential implications for financial stability. The ESRB has therefore been following up on the 2023 report and has expanded its research to include stablecoins, crypto exchange-traded products (ETPs) and crypto-conglomerates. The ESRB has also been monitoring the risks of crypto-asset markets to assess their systemic relevance and to explore policy responses. In 2024 the cash crypto market capitalisation almost doubled, reaching unprecedented levels. This trend was primarily driven by the US Securities and Exchange Commission's approval of spot bitcoin ETPs in January 2024 and speculation about favourable regulatory treatment after the US presidential elections (see also Box 6). However, crypto markets remain highly volatile as a result of market and regulatory developments. Vulnerability to cyberattacks and the cyber-theft of crypto-assets remains high – as illustrated by the USD 1.5 billion theft suffered by the crypto-asset exchange Bybit in January 2025, the biggest crypto heist of all time. This calls for authorities to assess and enforce measures to ensure that crypto-asset players mitigate their exposure to operational risks, as highlighted in the ESRB's "Crypto-assets and decentralised finance report", published in 2023.

¹⁷ See "Crypto-assets and decentralised finance – Systemic implications and policy options", European Systemic Risk Board, May 2023.

Box 6

Key developments in global crypto-asset markets between January 2024 and March 2025

In January 2024 the US Securities and Exchange Commission's authorisation of the issuance and trading of spot bitcoin ETPs sparked strong demand by investors, also resulting in steep price appreciation of bitcoin. ETPs make it easier for investors, particularly in the United States, to access crypto-assets without holding them directly. This attracts a wider range of investors, including large institutions, such as hedge funds or pension funds. Crypto-assets also recorded substantial gains at the end of 2024 as the market anticipated a decisive favourable shift in US policy in the aftermath of the presidential elections.

As outlined in the Executive Order of 23 January 2025, the US Administration has expressly stated its aim to promote the global development and expansion of digital assets and US dollar stablecoins, to safeguard and enhance the sovereignty of the US dollar and distributed ledger technology. Measures have been also taken to overhaul the US supervisors' approach by withdrawing lawsuits against certain firms, establishing a working group on digital assets and creating a US digital assets reserve.

US and EU legislators have taken different stances towards the regulation of crypto-asset activities. The draft GENIUS Act introduced on 4 February 2025 aims to establish a regulatory framework for payment stablecoins, based on a supportive stance, and to provide options for international payments and value storage. A House bill (the STABLE Act) was also introduced and passed the respective House committee in April 2025. At the same time, under the MiCA Regulation stablecoins are governed either as electronic money tokens or asset-referenced tokens using a bespoke regulatory treatment. The initial draft GENIUS Act aims to establish a bespoke regulatory framework for stablecoins and to provide options for international payments and value storage. The draft proposal, as originally introduced, is only partially aligned with the recommendations of the Financial Stability Board (FSB) on global stablecoins as it does not include provisions on conflicts of interest or crisis management plans. This draft act also differs from the EU regulation on markets in crypto-assets in several key areas. Unlike MiCA-licensed stablecoin issuers, US issuers under the proposed framework would not be prohibited from charging redemption fees. They would not be required to hold a large portion of their funds in bank deposits and would have the flexibility to use a broader range of eligible reserve assets to back stablecoins. Furthermore, the draft GENIUS Act does not indicate what the own funds requirements for issuers would look like.

The differing regulatory positions could negatively affect EU financial stability despite the recent regulatory action to limit risks from crypto-asset activities.

In particular, the difference between the EU and US regulatory approaches may encourage the further development of crypto-assets issued jointly by EU and US issuers (also known as "one-leg out multi-issuance schemes"). In this respect, the draft GENIUS Act – consistent with the related Executive Order on Stablecoins –

envvisions reciprocal arrangements with foreign jurisdictions that have substantially similar stablecoin regulations. This is intended to facilitate international transactions and ensure interoperability with US dollar stablecoins issued in those countries. By contrast, MiCA does not include any procedure for the recognition of equivalent third-country regimes. Rather, it has tasked the European Commission with issuing a report (by either June 2025 or June 2027) containing an assessment of the need to include such a procedure. Should the EU allow this multi-issuance, without an equivalent regulatory regime in the United States and suitable protections within the EU, such a move could potentially leave EU stablecoin holders vulnerable during times of market instability. In particular, in a market stress situation stablecoin holders in the United States might be prompted to redeem their coins with an EU issuer to bypass redemption fees imposed by US issuers. As a result, reserves allocated for stablecoin under the MiCA framework could end up benefiting US holders and potentially leaving EU holders without the intended protection provided by MiCA.

The ESRB will further analyse how provisions in MiCA could be enforced by National Competent Authorities in order to mitigate issues from multi-issuance under stress conditions or whether further regulatory provisions would be needed.

2.1.3 Mitigating financial stability risks resulting from margin calls

In April 2024 the ESRB responded to a consultation on the transparency and responsiveness of initial margins in centrally cleared markets.¹⁸ In January 2024 the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a consultative report on the transparency and responsiveness of initial margins in centrally cleared markets. The proposals put forward seek to ensure that market participants are better prepared to meet margin calls, particularly when margin requirements surge in times of stress. In its response to the consultation, the ESRB supported these proposals, noting that several have already been incorporated into EU legislation. It called on the European Commission to review whether EU legislation needs to be enhanced to fully reflect these proposals and recommendations.

The ESRB examined margining and margin preparedness as part of its response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation.¹⁹ The ESRB takes the view that the regular exchange of margin to collateralise transactions has made the financial system safer, but cautions that the liquidity risk that can arise from

¹⁸ See the ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets, European Systemic Risk Board, April 2024.

¹⁹ See "A system-wide approach to macroprudential policy", European Systemic Risk Board, 2024, op.cit.

sudden margin calls during times of heightened market volatility needs to be better managed. CCPs and their clearing members, in particular, need to ensure their behaviour does not put unnecessary strain on the clearing ecosystem. At the same time, all market participants entering into transactions that require the exchange of margin need to be prepared to meet margin calls during times of stress. To address this, the ESRB called on the European Commission to review whether EU legislation needs to be enhanced to fully reflect the proposals and recommendations of the BCBS, CPMI-IOSCO and the FSB.²⁰ The ESRB also noted that stress testing is a key tool for testing margin preparedness and welcomed the fact that the EU-wide stress tests carried out by the ESAs are considering this aspect.

2.1.4 Fostering system-wide cyber resilience

In April 2024 the ESRB published a second report on advancing macroprudential tools for cyber resilience.²¹ In this report, the ESRB concluded that there may be large-scale incidents that require substantial collective and coordinated action across jurisdictions. The ESRB identified three areas for action. First, it encourages authorities and financial institutions to improve their information management and information sharing efforts. Second, it advocates national and EU-level crisis management and coordination practices that refer to European and international standards. Third, it will further consider the pros and cons of system-wide contingency options and back-up arrangements. The report was discussed and approved by the ESRB General Board in March 2024 and is described in greater detail in the 2023 Annual Report.

In January 2025 the ESRB became a member of the new EU systemic cyber incident coordination framework (EU-SCICF) established by the ESAs. At the start of the decade, the ESRB recognised a gap in existing crisis management frameworks and the need to establish a mechanism to overcome potential coordination failures during the response to a systemic cyber incident. The objective of this mechanism is to increase the level of preparedness and define a coherent and effective response. Therefore, in 2021, the ESRB General Board issued a Recommendation²² addressed to the ESAs to establish the EU-SCICF in lockstep with the implementation of the Digital Operational Resilience Act. The ESAs welcomed the Recommendation²³ and announced the establishment of the EU-SCICF in July 2024.²⁴ Since January 2025, the ESAs have been servicing the

²⁰ The BCBS/CPMI/IOSCO final reports were published in January this year. “Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals”, BCBS/CPMI/IOSCO, January 2025; “Streamlining variation margin processes and initial margin responsiveness of margin models in non-centrally cleared markets”, BCBS/IOSCO, January 2025; “Streamlining variation margin in centrally cleared markets - examples of effective practices”, CPMI/IOSCO, January 2025.

²¹ See “**Advancing macroprudential tools for cyber resilience – operational policy tools**”, European Systemic Risk Board, April 2024.

²² See “**Recommendation ESRB/2021/17**” and the accompanying report “**Mitigating systemic cyber risk**”, European Systemic Risk Board, January 2022.

²³ See the ESAs’ public statement on welcoming the ESRB’s Recommendation to establish a pan-European systemic cyber incident coordination framework released in January 2022.

²⁴ See the ESAs’ announcement establishing the EU-SCICF.

framework through the EU-SCICF Secretariat and also chair the EU-SCICF Forum, of which the ESRB is a member.²⁵

2.1.5 Real estate vulnerabilities

The ESRB continued to monitor developments in the European real estate markets, including analysing the evolution of credit standards based on information provided by the member countries. A widespread development observed among EEA countries in 2023 was an increase in the loan-to-service-income (LSTI) or the debt-to-service-income (DSTI) ratio of new loans compared with 2022, following the increase in debt servicing costs after the rise in interest rates. This increase was usually coupled with an increase in mortgage maturities. Moreover, in many countries the loan-to-value (LTV) or loan-to-income/debt-to-income (LTI/DTI) ratios decreased, highlighting a potential decline in the average mortgage amounts taken out by households in 2023. The ESRB compared mortgage standards across countries and – while hampered by differences in definitions – this analysis provided a good starting point for identifying countries in which lending practices could still be improved.

As a follow-up to the [Report on vulnerabilities in the residential real estate sectors of the EEA countries](#) published in 2024, the ESRB reassessed the evolution of RRE vulnerabilities, focusing on a comparison of recent trends with the European average. Some countries had seen rapid dynamics in their housing markets, with cyclical risk at an elevated level. However, the authorities in those countries have recently implemented new policies that are expected to suitably mitigate the rising vulnerabilities.

Another area of work is the exploration of ways in which BBMs could be devised for the CRE sector. These new tools would limit risk-taking by lenders and ensure that borrowing CRE companies are better positioned to service their debt. This ongoing work supports the [ESRB Recommendation on vulnerabilities in the commercial real estate sector in the European Economic Area \(ESRB/2022/9\)](#) in which Member States were asked to ensure sound CRE financing practices. The Recommendation assigned the European Commission the task of proposing EU legislation, should it deem this to be necessary. This legislation would complement the existing entity-specific macroprudential tools with activity-based macroprudential tools to help address CRE vulnerabilities. The work is also consistent with the proposals for activity-based regulation on lending highlighted in the ESRB's response to the European Commission's consultation on non-bank financial intermediation macroprudential policies.²⁶

²⁵ See the [EU-SCICF Forum's terms of reference](#) and the [EU-SCICF factsheet](#). The chairmanship of the EU-SCICF is rotated among the ESAs and the ESRB.

²⁶ ["A system-wide approach to macroprudential policy"](#), European Systemic Risk Board, 2024, op.cit.

2.1.6 Dealing with a more uncertain environment and greater interest rate variability

The COVID pandemic, Russia's invasion of Ukraine and the policies of the new Trump Administration have highlighted the fact that systemic risk can also stem from exogenous shocks, as well as from the inherent cyclicity of the financial system. The rise in inflation triggered by such events led to rapid tightening of monetary policy and a sharp rise in interest rates. This was a major shock for the financial system, causing large valuation losses on fixed-rate assets and liquidity needs to meet margin requirements for interest rate derivatives.

Although the rise in interest rates did not cause financial instability in the EU, the General Board considered that systemic risk related to interest rate variability should be monitored more closely. There were no major bank failures in the EU as there were in the United States and Switzerland, or any major liquidity crises as in the United Kingdom, where the Bank of England had to intervene to support pension funds. The ESRB set up an informal network of experts from the ESAs, the Single Resolution Board, the ECB, the SSM, the ESRB's Scientific Advisory Committee and several national central banks, which will draw lessons from the recent interest rate hike and try to assess the EU financial system's preparedness for future interest rate changes, which have become more likely in the current environment of global uncertainty.

Heightened uncertainty linked to (geo-) political, technological and climate developments pose new challenges for macroprudential policy. The ESRB has established an exploratory group under the auspices of its Advisory Technical Committee and Advisory Scientific Committee to look into methods that could complement the established prudential toolkit to monitor financial stability risks which cannot be assessed on the basis of historical data. The group has looked at foresight and scenario analysis methods and should, in 2025, propose practical ways to enhance the capacity of the macroprudential authorities to anticipate, and prepare for, a broader range of threats to financial stability.

2.2 Strengthening the regulatory framework for banks

2.2.1 Country risk analysis and the macroprudential stance framework

As outlined in the 2023 Annual Report, the ESRB is using its stance framework to support macroprudential decision-making across the ESRB membership.

The importance of this holistic assessment of macroprudential stance has also been stressed in the report published by the ESRB High-Level Group. The four authors highlight the importance of taking a cross-country perspective "in order to ensure that it considers the diverse macroeconomic and financial environment of all EU Member States, as well as allow for the identification of systemic risks that originate in a

single country". The assessments undertaken by the ESRB are both cross country and country specific. They are grounded in qualitative economic analysis and complemented with discussions with national macroprudential authorities. They also incorporate an indicator-based approach, in which readily available indicators for risks, resilience and policy are compared across countries for both capital-based measures and BBMs.²⁷ This systematic approach allows all countries to be compared in the same way, which complements the country-specific assessment and provides an overall assessment of stance across the membership.

Over the past year the ESRB has been finetuning the way it runs its stance assessment, aiming to bring a wider and more forward-looking perspective to its analysis. Europe is facing significant challenges that have a bearing on systemic risk. Uncertainty is particularly high owing to a geopolitical situation replete with international tensions, including Russia's war of aggression against Ukraine, the war in the Middle East and trade restrictions. In addition, the previously tight monetary policy has not yet fully passed through to the credit cycle and currently lower interest rates should instead be strengthening the cycle. The ESRB's analysis takes into account additional factors such as the current high uncertainty and exposures to tariff increases, while adopting a forward-looking perspective to assess whether the macroprudential stance is commensurate with the financial conditions prevailing in each country. Nevertheless, more traditional risks, such as those stemming from the real estate markets, continued to be monitored through the macroprudential stance framework.

The ESRB will continue to use and improve the macroprudential stance framework. The ESRB's macroprudential framework also incorporates a growth-at-risk (GaR) approach, which can be used to estimate the impact that macroprudential policy has on future economic growth distribution forecasts. The model used for the GaR approach will be further finetuned to improve its forward-looking performance. In addition, the approach currently only covers the banking sector while non-bank financial intermediaries are becoming increasingly important and interlinked with the banking system. Therefore, it is foreseen that the framework will eventually be extended to incorporate non-bank financial intermediaries, which will allow for a truly holistic assessment of the European banking sector's macroprudential stance.

2.2.2 Positive neutral approach to setting the countercyclical capital buffer

The ESRB and the ECB published a joint report in January 2025 aimed at obtaining deeper knowledge of the implementation of positive neutral approaches to setting the CCyB.²⁸ A timely build-up of capital buffers that can be released in times of stress is essential for financial stability. One way to achieve this

²⁷ See "Improvements to the ESRB macroprudential stance framework", ESRB, 2024; "Report of the Expert Group on Macroprudential Stance – Phase II (implementation)", ESRB, 2021; and "Features of a macroprudential stance: initial considerations", ESRB, 2019.

²⁸ See "Using the countercyclical capital buffer to build resilience early in the cycle", European Systemic Board and European Central Bank, January 2025.

is by setting a CCyB rate early in the cycle when cyclical systemic risks are neither subdued nor elevated. In recent years, a “positive neutral” approach to setting the CCyB has gained traction among EEA countries as one way to increase resilience over the financial cycle. Seventeen EEA jurisdictions have implemented this early activation of the CCyB, which ensures that there are sufficient buffers available to be released in times of stress, to absorb losses and allow credit institutions to fulfil their key economic functions during downturns. The aim of the report is to provide an understanding of how authorities can apply this “positive neutral” approach. This understanding is essential to advancing the use of the CCyB.

The report reviews the information available and the experience gained to date on implementing a positive neutral CCyB to promote peer learning and foster a shared understanding of its use. Building on an extensive survey conducted among ESRB member institutions, the report describes the experiences of jurisdictions that have implemented (or are considering the implementation of) a positive neutral CCyB. It also incorporates the views of those that have not implemented this approach. This allows for a deeper understanding of different perspectives and the identification of potential obstacles to the use of a positive neutral CCyB. The report covers several aspects of the implementation strategies adopted by member jurisdictions. These include looking at the rationale for adopting a positive neutral CCyB approach, or for choosing not to adopt such an approach. The report also considers perceived benefits and costs, as well as the implications of setting the CCyB through the cycle, calibration methods, interactions with other capital instruments, buffer usability and reciprocity considerations.

There can be many different – and often co-existing – motivations for adopting a positive neutral CCyB approach. These mostly relate to (i) the need to build up the CCyB in a timely manner (to address lags or uncertainty in the identification of systemic risks and also to ensure that releasable capital buffers are available in the early stages of the financial cycle); (ii) allowing for a more gradual (and therefore less costly) build-up of the buffer; and (iii) increasing the amount of the buffers available for release, including building resilience to a wider spectrum of potentially large shocks.

The report highlights several common elements in the positive neutral CCyB approaches adopted by EEA countries. First, a positive neutral CCyB approach is not intended to be a new buffer, but rather the earlier activation of the CCyB in an environment where cyclical systemic risks are neither subdued nor elevated. Second, in most countries, adopting a positive neutral CCyB approach is not expected to yield higher CCyB requirements at the peak of the cycle. This is in line with the objective of building up the CCyB early in the cycle. Third, for most countries, this more proactive and flexible use of the CCyB does not need to be offset by lowering other requirements, consistent with the risk-based nature of the CCyB.

Finally, the report describes what ESRB member institutions see as the challenges and obstacles to implementing a positive neutral CCyB approach and presents potential avenues for overcoming them. First, more clarity on the objectives of a positive neutral CCyB could alleviate concerns about potential

overlaps with the objectives of other instruments, most notably the SyRB. Second, some countries view a lack of clarity in EU legislation as an obstacle to adopting a positive neutral CCyB approach. In this regard, it would be helpful to clarify the European macroprudential framework to ensure that the CCyB can be used more flexibly and proactively. This could be done by reducing the prominence of the credit-to-GDP gap and other credit indicators to guide the setting of the CCyB rate. ESRB member institutions also broadly support the promotion of a more consistent implementation of the CCyB (including its use early in the cycle) within the EU, while maintaining a degree of discretion to account for specific national features. In this context, most ESRB member institutions support an update of Recommendation ESRB/2014/1,²⁹ also to provide the authorities that wish to implement a positive neutral approach with a common frame of reference for setting and calibrating the CCyB when cyclical risks are not elevated, while continuing to allow for a sufficient degree of national discretion.

2.3 Strengthening the regulatory framework for non-bank financial institutions

The ESRB proposed changes to certain level 1 texts to enhance the resilience of non-banks and provided advice to the ESAs on certain level 2 and level 3 texts. During the previous review period, EU co-legislators reached political agreement on the level 1 texts setting the prudential rules governing certain non-bank financial institutions: investment funds (the AIFMD³⁰) and the Undertakings for the Collective Investment in Transferable Securities (UCITS Directive³¹), insurance (the Solvency II Directive³²) and CCPs (the European Market Infrastructure Regulation, EMIR³³). During this review period, the ESRB proposed changes to some of these rules to enhance the resilience of non-banks. The ESRB also provided advice to EIOPA and ESMA on macroprudential aspects of certain level 2 and level 3 texts the ESAs are drawing up to implement the new prudential rules. This included proposals and advice concerning the prudential rules for CCPs, investment funds and insurers. The remainder of this section describes the work of the ESRB in these areas in more detail.

²⁹ Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1).

³⁰ Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1).

³¹ Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

³² Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) (OJ L 335, 17.12.2009, p. 1).

³³ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, p. 1).

2.3.1 Central clearing

In January 2025 the ESRB responded to the ESMA consultation on the conditions of the Active Account Requirement (AAR).³⁴ The review of EMIR 3 requires certain financial and non-financial counterparties to hold active accounts at EU CCPs for derivatives contracts related to the clearing services that have been identified by ESMA as being of substantial systemic importance for the financial stability of the EU or one or more of its Member States. In its response to the ESMA consultation on the conditions of the AAR, the ESRB supported the proposals put forward by ESMA and offered observations on those aspects of the consultation that it considered most relevant from a financial stability perspective: (i) operational conditions, (ii) representativeness obligations, and (iii) reporting requirements. The ESRB further expressed its views on topics outside the scope of ESMA's consultation. In particular, the ESRB took the view that the way in which the level 1 text introduced the AAR will likely be insufficient to adequately address risks to financial stability. Specifically, it regretted the absence of risk-based measures that target the overall exposures to third-country CCPs. Further, the ESRB would have preferred new reporting requirements to have been included in the previously established reporting lines to trade repositories under EMIR.

2.3.2 Investment funds, including MMFs

In December 2024 the ESRB published a report which identified vulnerabilities in EU MMFs and other investment funds as high priority areas for legislative action. Most of the report, which is the ESRB's response to the European Commission's targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation, focuses on actions that require legislation that applies across the financial system. These are described in Section 2.1. However, the report also identifies areas where action to improve sector-specific legislation, namely the Money Market Fund Regulation (MMFR), the AIFMD and the UCITS Directive, is needed to address vulnerabilities.

The report calls for the implementation of the ESRB's 2021 Recommendation on MMFs,³⁵ **as vulnerabilities in MMFs remain unaddressed and continue to pose risks to financial stability.** In its 2021 Recommendation, the ESRB recommends that the European Commission (i) reduce threshold effects that might generate first-mover advantage and lead to runs, including by requiring all low-volatility net asset value MMFs to have a fluctuating net asset value; (ii) introduce higher liquidity requirements and encourage MMFs to use liquidity buffers to meet redemptions; (iii) require MMFs to have at least one liquidity management tool in place that passes trading costs on to departing and incoming investors; and (iv) enhance monitoring and stress-testing frameworks. This Recommendation was

³⁴ See "ESRB response to the ESMA consultation on the conditions of the Active Account Requirement following the review of the EMIR", European Systemic Risk Board, January 2025.

³⁵ Recommendation of the European Systemic Risk Board of 2 December 2021 on reform of money market funds (ESRB/2021/9) (OJ C 129, 22.3.2022, p. 1).

mirrored in the proposals from ESMA on the review of the MMFR.³⁶ While vulnerabilities are being addressed in the United States and the United Kingdom, the ESRB's response to the Commission's targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation notes that no action was taken in the EU.³⁷ This poses risks to financial stability and means that EU MMFs are more likely to transmit shocks to global markets via their cross-border interlinkages.

The report also proposes adapting existing policy tools in the regulatory framework for investment funds and creating new tools to reduce systemic risk. The report notes that the regulatory and supervisory framework for investment funds has been further improved. In particular, the recent amendments to the AIFMD and the UCITS Directive have introduced key provisions for liquidity management tools and improved reporting requirements.³⁸ However, further efforts are required to reduce risks and vulnerabilities. In its report, the ESRB advocates longer notice periods and reduced redemption frequencies to address structural liquidity mismatches in funds investing in inherently illiquid assets. The ESRB also calls for the incorporation of antidilution measures in fund management, in addition to a more effective incorporation of liquidity risk stemming from margin and/or collateral in the liquidity stress-testing framework. Moreover, the ESRB calls for consistent leverage definitions and metrics across UCITS and alternative investment fund managers to effectively monitor and control excessive leverage, complemented with direct leverage restrictions. Additionally, greater transparency is needed in private equity and debt funds to assess risks effectively.

2.3.3 Insurance

In December 2024 the ESRB provided advice to EIOPA on the criteria for the identification of exceptional sector-wide shocks.³⁹ Article 144c of the Solvency II Directive enables supervisory bodies to take measures to preserve the financial position of individual insurers or the stability of the financial system during exceptional sector-wide shocks. To ensure that supervisors apply these measures consistently, EIOPA has been tasked with developing a Regulatory Technical Standard (RTS) in consultation with the ESRB (Article 144c 7) that sets out criteria for the identification of exceptional sector-wide shocks. As part of this consultation, the ESRB provided advice for a draft RTS prepared by EIOPA. The ESRB's advice pinpoints areas where the draft RTS could be enhanced. This includes clarifying that the criteria set out in the RTS are not a closed list, expanding the background on sector-wide shocks, considering transmission and amplification factors as part of the

³⁶ "Final Report: ESMA opinion on the review of the Money Market Fund Regulation", European Securities and Markets Authority, 2022a.

³⁷ See "Compliance report. Recommendation of the European Systemic Risk Board of 2 December 2021 on reform of money market funds (ESRB/2021/9)," European Systemic Risk Board, February 2025, which shows material non-compliance of the European Commission with the Recommendation (see Section 4.2).

³⁸ Directive (EU) 2024/927.

³⁹ See "ESRB advice to EIOPA on the criteria for identification of exceptional sector-wide shocks", European Systemic Risk Board, 19 December 2024.

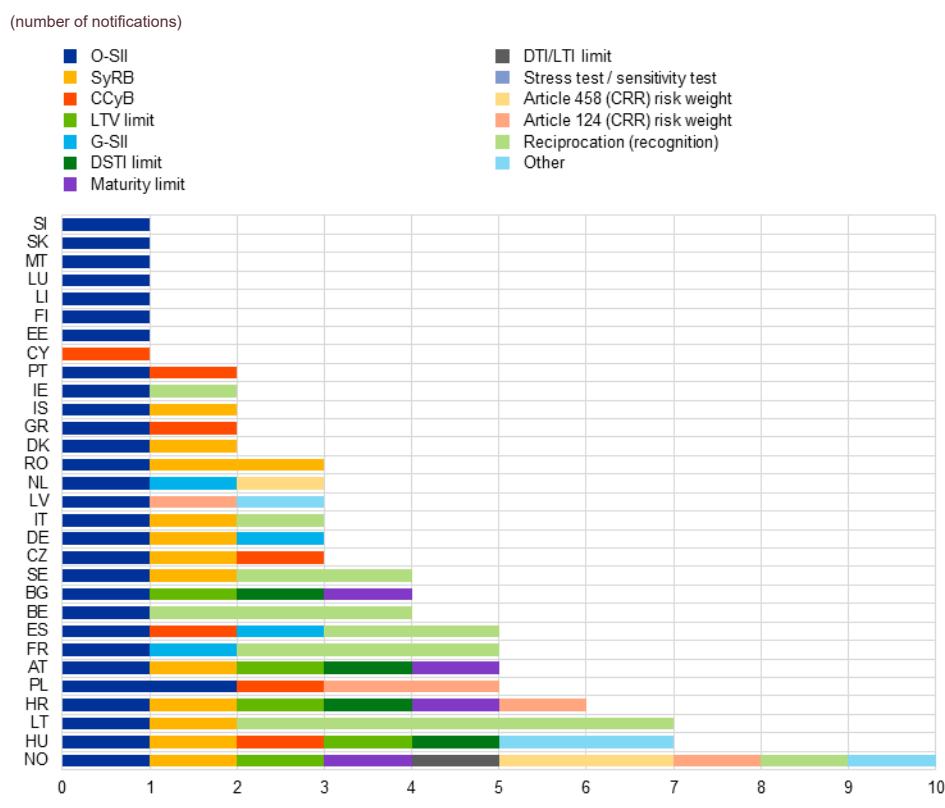
criteria for identification and providing background and clarification on key concepts that are not defined in the Solvency II Directive. The ESRB's advice also highlights the importance of RTSs and other guidance being developed to support the implementation of the new supervisory provisions of Articles 144a to 144d of the Solvency II Directive to follow a holistic approach. Furthermore, the ESRB's advice reiterates the importance for RTSs and other guidelines to ensure the sector is suitably monitored from a macroprudential perspective.

3 Review of national measures

This section provides an overview of the macroprudential policy measures taken by EEA countries and notified to the ESRB during the review period.⁴⁰ In line with its broad mandate and EEA-wide perspective, the ESRB acts as an information hub for macroprudential measures adopted by its member countries. The ESRB maintains the database of macroprudential measures adopted by EEA countries notified to the ESRB. During the review period, all EEA countries notified to the ESRB at least one macroprudential action. In this section, the actions notified to the ESRB are ordered by type of instrument.

Chart 7

Notifications received by the ESRB between April 2024 and March 2025 by type of measure and by country



Source: ESRB.

Notes: Only measures adopted or publicly announced during the review period and before the cut-off date of 31 March 2025 have been included. Reciprocation (recognition) measures are decisions made by countries on the reciprocity of other countries' measures. CCyB stands for countercyclical capital buffer, SyRB stands for systemic risk buffer, O-SII denotes the buffer for other systemically important institutions, G-SII denotes the buffer for global systemically important institutions, LTV is the loan-to-value limit, DSTI stands for the debt service-to-income limit, DTI/LTI denote the debt-to-income/loan-to-income limits and CRR stands for Capital Requirements Regulation.

⁴⁰ This refers to measures that were notified and announced during the review period, i.e. between 1 April 2024 and 31 March 2025. O-SII notifications are submitted by countries once a year and there is therefore one entry per country per year.

3.1 Overview of national measures

Over the period under review, most macroprudential policy decisions resulted in a tightening rather than a loosening of stance in a number of EEA countries, particularly for policies related to capital buffers (Chart 8). Several EEA countries increased their CCyB rates, with four countries activating the buffer for the first time. In some cases, these increases took place under a positive neutral approach under which authorities aim for a positive CCyB rate when risks are judged to be neither subdued nor elevated. Two countries activated new SyRBs, one introduced a sectoral SyRB in response to increasing systemic risks while a further two reduced the level of their existing SyRB rate.

A number of BBMs were also taken, although with no clear overall direction as regards the impact of the countries' macroprudential policy stance. Two countries adopted new BBMs, others loosened existing BBMs either generally or for a specific group of borrowers, while other countries made simplifications or changes to existing BBM calculation methods.

Finally, one country introduced a new risk weight measure on CRE exposures, two countries extended the application period of existing risk weights measures for RRE or CRE exposures,⁴¹ while another three removed stricter risk weight measures amid the entry into force of the revised Capital Requirements Regulation.⁴²

⁴¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

⁴² Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (OJ L 2024/1623).

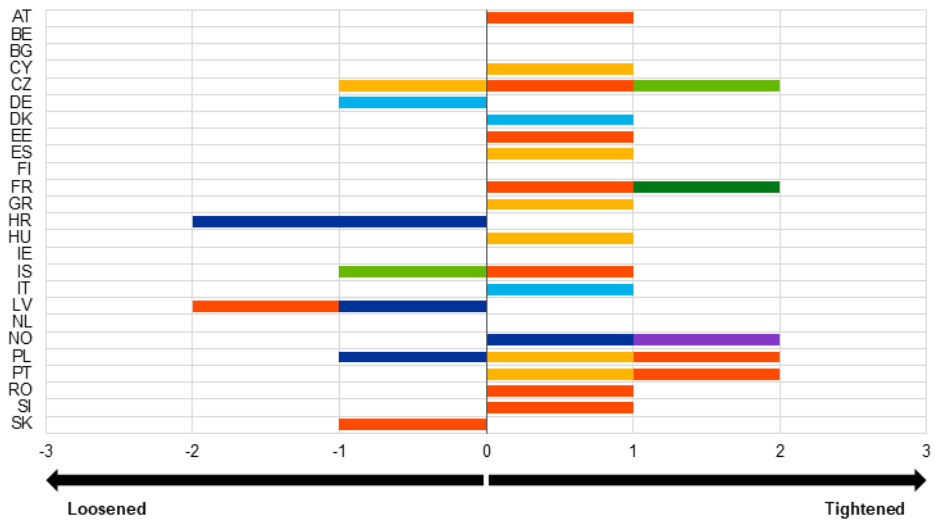
Chart 8

Overview of tightening or loosening of capital-based and borrower-based measures between April 2024 and March 2025

(number of measures)

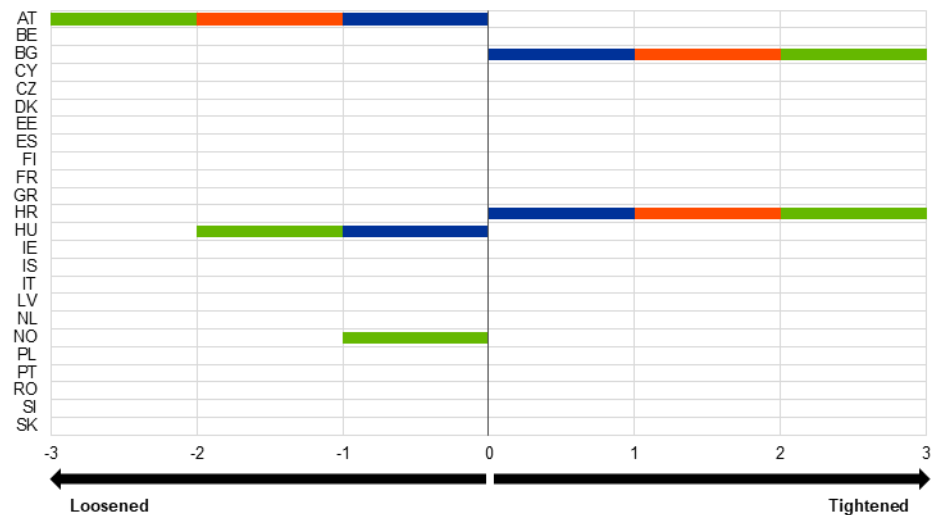
a) Capital-based measures

- Art. 124 Risk weight
- CCyB
- O-SIIs
- SyRB - general
- SyRB - sectoral
- G-SIIs
- Art. 458 Risk weight



b) Borrower-based measures

- DSTI
- DTI
- Loan maturity
- LTV



Source: ESRB.

Notes: The loosening of existing LTV and DSTI limits for Hungary relates only to a specific group of borrowers, in the case of "green" loans. Following the implementation of the revised CRR III, some countries reviewed the national measures taken pursuant to Article 124 and revoked the application of higher risk weight requirements for real estate exposures. These have been considered as a "loosening" of measures for the purposes of this Chart and are described further in Section 3.5 below.

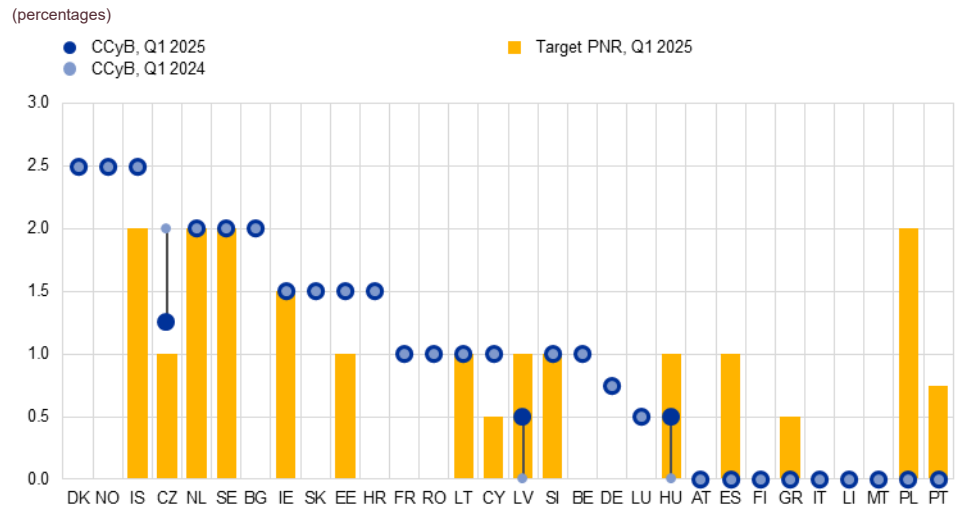
3.2 Countercyclical capital buffer

During the review period, seven countries announced a change in their CCyB rates, in most cases tightening their stance. Greece, Poland, Portugal and Spain announced an activation of their CCyB rates for the first time, to levels of between 0.25% and 1.0%. Two countries, Cyprus and Hungary, increased their CCyB rates to 1.5% and 1.0% respectively. Despite the positive outlook for its economy, Cyprus decided to raise its CCyB rate on identifying increased cyclical systemic risks, increased reputational risks and geopolitical developments. After initially postponing the activation of its CCyB following the easing of cyclical systemic risks and concerns about housing market overvaluation, Hungary activated its CCyB rate for the first time at 0.5% in July 2024. By contrast, the Czech Republic further reduced its CCyB rate in two steps to 1.25%, owing to a decline in cyclical risks in the domestic banking sector. This approach aligns with the Czech Republic's approach to calibrating its CCyB in a way that closely mirrors the phases of its financial cycle. During a gradual slowdown of the cycle, it continues to monitor outcomes using quantitative methods and adopts a conservative approach to reducing the CCyB rate. By the end of the review period (31 March 2025), a positive CCyB rate had either been announced or was in effect in 25 countries (see Chart 9).

In some countries, increases were related to the implementation of positive neutral CCyB rates. The aim of a positive neutral rate approach is to ensure that sufficient capital is available for release early in the cycle, to absorb losses and allow credit institutions to fulfil their key economic functions during downturns. Spain and Hungary started applying a positive neutral CCyB framework during the review period, setting their positive neutral rates at 0.5% and 1% respectively. In Spain, the target positive neutral rate was set at 1%, on the provision that cyclical systemic risks would remain at a standard level. The buffer requirement in force will initially be 0.5%, applicable from 1 October 2025, with the increase to 1% planned for the fourth quarter of 2025, applicable from 1 October 2026. Poland and Cyprus raised their CCyB rates to 1% and 1.5% respectively, both within a positive neutral framework, albeit with the recent increase in Cyprus being attributed to elevated cyclical risks. Greece and Portugal revised or developed their frameworks within a neutral environment. Greece decided to set its CCyB rate at 0.25%, applicable from October 2025 and, in a sequential step, will foreseeably build up to a target positive neutral rate of 0.5% from October 2026. Portugal also established a positive neutral rate, equal to 0.75%. The adoption of positive neutral CCyB rates is already widespread. Overall, 17 countries had a positive neutral rate in place on 31 March 2025, including countries with a positive rate that has not yet come into effect but has been announced.

Chart 9

Implemented CCyB rates and target positive neutral rates in EEA countries, as at 31 March 2025



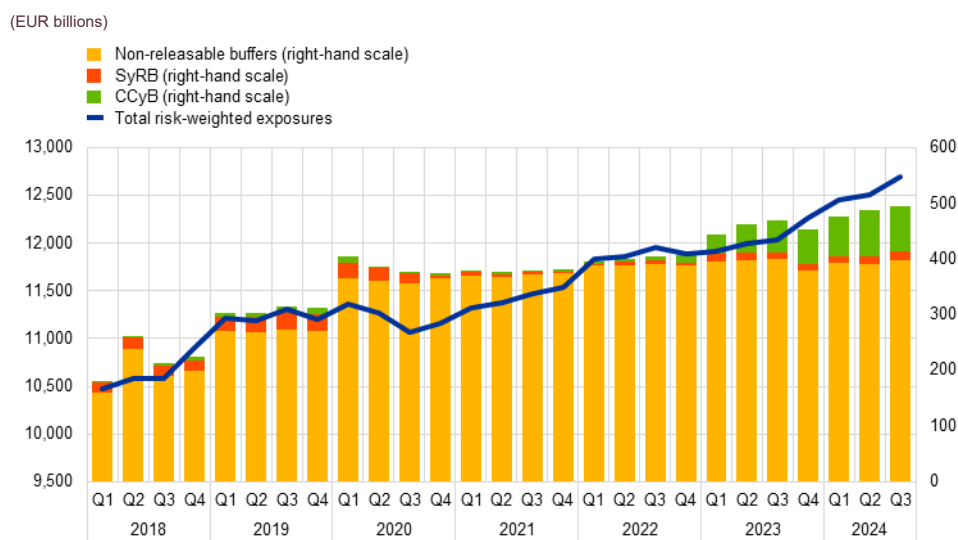
Source: ESRB.

Notes: CCyB stands for countercyclical capital buffer and is the actual implemented rate. PNR is the target positive neutral rate. The Chart shows the CCyB rates in effect at the end of the first quarter of 2024 and the first quarter of 2025 as well as the target PNRs. Cyprus and Iceland have set a minimum target PNR of 0.5% and 2% respectively. Denmark and Norway have not set target PNRs but have adopted an "early and gradual" approach to setting their CCyB and are included among the 17 countries adopting a positive neutral approach.

Across the euro area, non-releasable macroprudential buffers (the buffers for G-SIIs and O-SIIs, and the capital conservation buffer) still account for most of the total buffers (see Chart 10). Non-releasable buffers ensure the resilience of banks to risks that are not expected to vary over time. While banks can dip into these buffers in times of stress, they are not expected to be lowered during stress periods and therefore cannot provide banks with capital relief to cushion shocks. When macroeconomic and macro-financial conditions so allow, proactively increasing releasable buffers in some countries during periods of normal activity could therefore be beneficial, as a way of ensuring the resilience of the banking sector during times of crisis.

Chart 10

Releasable and non-releasable macroprudential buffers for euro area banks



Source: ECB statistical data warehouse.

Notes: The non-releasable buffers include the following elements of the macroprudential capital stack: the capital conservation buffer and the higher of the two buffers – the other systemically important institutions or the global systemically important institutions buffer. From the third quarter of 2022 to the third quarter of 2024, there was a €76.4 billion increase in the capital amounts held as CCyBs (shown here by the increase in the solid green stacks). SyRB stands for systemic risk buffer.

EU capital rules for banks also allow authorities to set higher CCyB rates on exposures to third countries. Given the very large number of third countries to which this measure could apply, the ESRB, ECB and EU Member States share the responsibility for this task and focus on identifying and monitoring only those countries to which the banking system of the EEA as a whole, or of any individual EEA country, has material exposures. In order to implement a consistent EU-wide approach, the ESRB has provided details of its approach in Recommendation ESRB/2015/1⁴³ and Decision ESRB/2015/3⁴⁴. In particular, the ESRB establishes a list of third countries that are material for the EEA banking system as a whole and monitors developments in those countries. Since 2020, the identification sample – the banks whose exposures to third countries are taken into account – has been extended from the EU to encompass the whole of the EEA.⁴⁵

During the review period, the ESRB revised the list of material third countries that it had established in 2021 for the EEA as a whole and left it unchanged. Thus, the **list of material third countries** published in 2022 comprises Brazil, China, Hong Kong, Mexico, Russia, Singapore, Switzerland, Türkiye, the United Kingdom

⁴³ Recommendation of the European Systemic Risk Board of 11 December 2015 on recognising and setting countercyclical capital buffer rates for exposures to third countries (ESRB/2015/1) (OJ C 97, 12.3.2016, p. 1).

⁴⁴ Decision of the European Systemic Risk Board of 11 December 2015 on the assessment of materiality of third countries for the Union's banking system in relation to the recognition and setting of countercyclical buffer rates (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 23).

⁴⁵ The definition of a third country in Decision ESRB/2015/3 (i.e. any country outside of the EEA), combined with the fact that the macroprudential tools of the **Capital Requirements Directive (CRD)** and the **Capital Requirements Regulation (CRR)** have been applicable to Iceland, Liechtenstein and Norway since 1 January 2020, means that all EEA countries should now be included in the identification sample. See the **Decision of the EEA Joint Committee No 79/2019 of 29 March 2019 amending Annex IX (Financial services) to the EEA Agreement [2019/2133]** (OJ L 321, 12.12.2019, p. 170).

and the United States. In line with Recommendation ESRB/2015/1, individual EEA countries identified third countries that were material from the perspective of their national banking systems and reviewed their lists in 2024 on the basis of their respective existing methodologies. The ESRB made no recommendations over the review period for higher CCyB rates for EEA bank third-country exposures, nor did any EEA country take any such action on its own initiative.

3.3 Systemic risk buffer

The Czech Republic activated an SyRB in response to increasing systemic risks. The Czech Republic decided to set a general SyRB rate of 0.5% for all institutions authorised in the Czech Republic. The decision was primarily related to the Czech economy's openness, high foreign trade concentration, strong production and employment concentration, the potential costs of transitioning to a climate-neutral economy and rising cyber risk. Those risks are magnified by the continued geopolitical tensions and growing uncertainty surrounding future economic developments abroad, especially in key trading partner countries.

A new SyRB was introduced in Italy on domestic credit and counterparty credit risk exposures. The activation of an SyRB of 1% aimed to further increase the resilience of the Italian banking system to shocks and enhance the capacity of banks to absorb possible losses and continue to finance Italian firms and households. This is to be achieved gradually by setting aside a reserve of 0.5% by 31 December 2024, with the remaining 0.5% by 30 June 2025. The decision to activate the SyRB was based on the fact that the Italian real economy is highly dependent on bank financing. As such, it was considered crucial to preserve the ability of the banking system to support households and firms in the event of adverse shocks, including those originating outside the financial system, such as pandemics and wars, in order to reduce the likelihood of severe disruptions.

A new sectoral SyRB was introduced in Denmark on all types of exposures to real estate companies. A decision was made to activate a sectoral SyRB of 7% for exposures in Denmark to non-financial corporations operating in real estate activities and in the development of building projects. Exposures within the LTV ratio range of 0% to 15% are excluded from the exposures to which the adjusted SyRB rate applies. The decision to activate the buffer was based on the significantly increasing share of lending by Danish credit institutions to real estate companies and the current macroeconomic conditions that have raised the potential materialisation of risks related to real estate companies.

By contrast, Germany and Iceland reduced their existing SyRB rates that apply to all institutions. Germany announced its intention to lower the currently applicable sectoral SyRB from 2% to 1%. According to the German authority, this is due to the observed stabilisation in the German RRE market. The buffer applies to all exposures secured by residential property. The reduced rate will be applicable from May 2025. In Iceland, despite the risks of increased sensitivity to developments in the global economy and frequent extreme economic fluctuations, resulting in higher

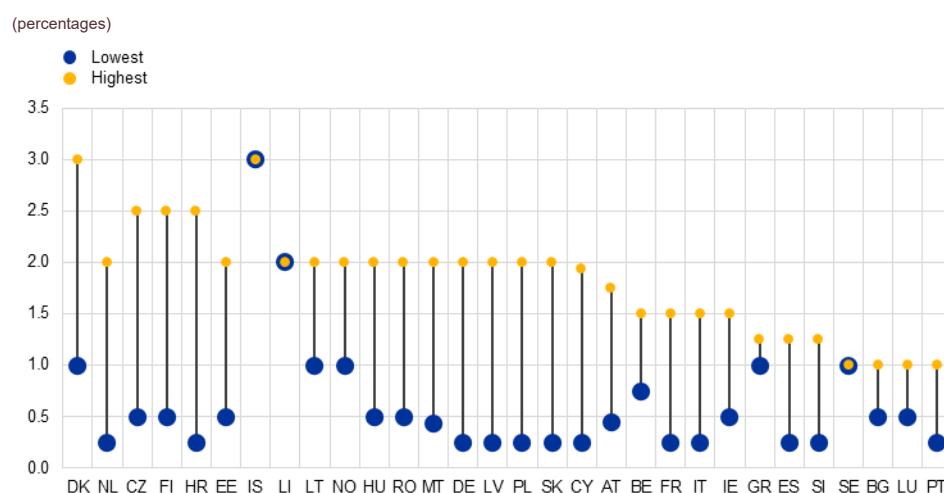
credit risk for banks, the Icelandic macroprudential authority decided to reduce its SyRB rate from 3% to 2%, having assessed that other risks have decreased. The risk assessment underlying this adjustment highlighted the fact that Iceland has seen a reduction in economic fluctuations in recent years. Furthermore, the Icelandic net international investment position, which has historically been negative, is now positive, allowing for the build-up of sizeable foreign currency reserves. This was assessed to have bolstered the resilience of the economy to external shocks. The reduced buffer rate entered into force on 5 December 2024.

3.4 Buffers for systemically important institutions (O-SIIs and G-SIIs)

As at 1 January 2025 185 O-SIIs had been identified in the EEA, two more than in the previous year. The highest O-SII buffer rates applied to individual institutions in each EEA country ranged from 1% to 3% (see Chart 11). The long-observed heterogeneity in buffer-setting for O-SIIs persisted (i.e. authorities in different countries applied different buffer rates to banks with comparable scores for systemic importance). As the ESRB had previously noted,⁴⁶ this heterogeneity is not fully explained by economic or financial sector features such as the size of the banking sector relative to GDP or the Member States' positions in the financial cycle.

Chart 11

Highest and lowest O-SII buffer rates by country as at March 2025



Source: ESRB.

Note: O-SII stands for other systemically important institution.

Seven G-SIIs were identified across four EEA countries for 2024. Based on the globally systemic banks (G-SIB) list published in November 2024 by the FSB, four G-SIIs were identified in France, while Germany, the Netherlands and Spain each had one. This number is unchanged from the previous year. Four of these seven banking

⁴⁶ "Review of the EU Macroprudential Framework for the Banking Sector: Response to the call for advice", European Systemic Risk Board, March 2022, p. 32.

groups were assigned a G-SII buffer rate of 1%, while the other three were assigned a buffer rate of 1.5%. With the exception of one banking group, whose rate was increased from the previous year, no other changes were made to the rates applied to G-SIIs identified previously.

3.5 Risk weight measures

Overall during the review period, one ESRB member country implemented a new risk weight measure on CRE exposures, two extended measures that existed for RRE or CRE exposures while another three removed stricter risk weights. Some of these risk weight measures were implemented pursuant to Article 458 of the CRR.⁴⁷ For these measures, the national authorities considered that the related systemic risk could not be addressed through other macroprudential tools. In a few other cases, risk weights were changed or existing risk weight measures based on Article 124 of the CRR continued to apply.

Norway implemented a national risk weight measure to address increasing risks in the CRE sector. Based on Article 124 of the CRR, a risk weight of 100% has been applied to exposures secured by commercial immovable property and a risk weight of 75% to exposures secured by commercial immovable property meeting the requirements for inclusion in the retail category.⁴⁸ Exposures secured by agricultural immovable property, which is not considered to be residential immovable property, are subject to the risk weight set out in Article 126(1) of the CRR. The ESRB is of the view that the measure does not entail disproportionate adverse effects on financial stability in Norway or in the EU, nor is it expected to form or create an obstacle to the proper functioning of the Internal Market. The exclusion of agricultural CRE exposures from the measure is justified by the more favourable risk characteristics of this subsector and it will not have a significant impact on the effectiveness of the measure.

The Netherlands and Norway extended the application of their existing stricter national measures implemented under Article 458 of the CRR. In Norway, the stricter measure related to a 35% risk weight floor targeting asset bubbles in the CRE sector. The extension was implemented owing to persistent systemic risks from high debt and falling CRE prices and is set to run for a minimum of two years from 31 December 2024. Norway also extended its 20% risk weight floor targeting asset bubbles in the RRE sector until June 2025. As the resulting increase in risk weights was less than 25%, it did not warrant the issuance of an ESRB opinion, in accordance with Article 458(10) of the CRR. The reciprocation procedure for these measures will be addressed in the next Annual Report review period. In the Netherlands, the stricter national measure concerned risk weights targeting asset bubbles in the residential property sector. The measure introduced a minimum

⁴⁷ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27/06/2013, p. 1).

⁴⁸ The changes introduced in CRR III affect the risk weighting of CRE exposures under the standardised approach. Given that CRR III comes into effect in Norway on 1 April 2025, these changes fall outside the reference period covered by this report.

average risk weight for the calculation of regulatory capital requirements applicable to exposures to natural persons secured by mortgages on residential property located in the Netherlands. The existing stricter requirement is applicable to credit institutions that use the Internal Ratings Based (IRB) approach for calculating regulatory capital requirements. Loans partly or wholly covered by the National Mortgage Guarantee scheme are exempted from the measure. The ESRB is of the view that the intensity of the macroprudential or systemic risk stemming from these exposures continues to pose a risk to financial stability at the national level. As such, it agreed that the measure should be extended.

Croatia, Latvia and Poland removed stricter risk weights for exposures secured by real estate. Poland removed its higher risk weights for exposures secured by mortgages on immovable property. The repeal of the regulation will result in the standard risk weights specified in the CRR being applied. Thus, no ESRB opinion was warranted. Latvia removed its higher risk weights (80%) on exposures that are fully secured by mortgages on commercial immovable property registered in the Member State, as a result of the implementation of CRR III. This came into effect on 1 January 2025. Croatia, following the implementation of CRR III, reviewed the discretions granted by Article 124 of the CRR, where stricter criteria were established for exposures secured by mortgages on RRE (35% risk weight) and a higher risk weight of 100% established for exposures secured by mortgages on CRE. As a result of the review, Croatia decided to drop two out of the four previously implemented stricter criteria for RRE exposures to adjust to the updated definition of “residential property”, and to reverse the application of the higher risk weight requirement for CRE exposures. No formal notification was submitted to the ESRB for this change, as the resulting risk weights align with the default risk weights in the CRR. The changes are applicable from 1 January 2025.

3.6 Borrower-based measures

Several countries have adjusted their BBMs, against a backdrop of increasing or elevated vulnerabilities in the real estate market. National authorities in six EEA countries took a range of actions, including the introduction and amendment of LTV, DSTI and loan maturity measures. Specifically, two countries introduced BBMs, some countries loosened requirements, either generally or for a specific group of borrowers, while in other cases simplifications were made or changes carried out in the calculation methods for existing BBMs.

Bulgaria and Croatia introduced a range of new BBMs relating to indicators of household lending and lending standards on loans to the household sector secured by RRE. The regular analysis conducted by the Bulgarian authorities revealed that lending activity in the RRE sector remains elevated and lending growth accelerated further in the second quarter of 2024. The assessment showed that some indicators, such as credit growth, indebtedness, house price growth and overvaluation, as well as average loan size, have shifted into a higher risk category, which signals a potential build-up of medium-term risks for the banking system. To address these risks, restrictions of up to 85% on the LTV ratio at origination, up to

50% on the DSTI ratio at origination and a 30-year maturity limit for housing loans were implemented. Banks can deviate from the above requirements with a total approved or renegotiated volume during the current quarter of up to 5% of the total gross amount of the new or renegotiated RRE loans during the preceding quarter. Croatia introduced a set of BBMs including LTV, DSTI and maturity limits, where exemptions are allowed up to a certain proportion of new lending and where limits and exemptions are differentiated by the type of loan. Specifically, Croatia introduced a DSTI limit of 45% for housing loans, with up to 20% of new loans allowed to exceed this limit; of these exemptions, at least 75% must be granted to consumers purchasing their primary residence, and 40% for non-housing loans, with up to 10% of new loans allowed to exceed this limit. It also introduced an LTV limit of 90%, with up to 20% of new loans allowed to exceed this limit; of these exemptions, at least 75% of loans must be granted to consumers purchasing their primary residence. Additionally, it introduced a maturity limit of 30 years for housing loans and non-housing loans secured by real estate collateral and ten years for other non-housing loans. Several exclusions apply to all the above BBMs.

Hungary and Norway loosened their existing LTV limits, the former for specific borrowers. Hungary increased its LTV limit from 80% to 90% for “green” loans, which bear a fixed interest rate for at least ten years and that meet the conditions for green collateral and loan purposes (i.e. loans for the purchase and construction of energy-efficient apartments, as well as efficiency-enhancing renovations). The measure applies only to mortgage loans denominated in Hungarian forints. With the exception of first-time borrowers, whose LTV is also 90%, the LTV limit remains at 80% for other borrowers. In Norway, the maximum LTV ratio for mortgages was increased from 85% to 90%. At the same time, another BBM was amended, as described below.

With regard to BBMs related to borrowers’ income and debt servicing ability, Hungary loosened its existing DSTI limits for specific borrowers whereas Norway and Estonia made some changes to calculation and stress test methods. In Hungary, the DSTI limit was increased to 60% for “green” mortgage loans in Hungarian forints, which bear a fixed interest rate for at least ten years, and for consumer loans, if certain conditions for green collateral and loan purposes are met, applicable from January 2025. Norway amended its debt servicing capacity requirement to allow lenders to take the risk-mitigating effects of fixed-rate loans into account. An interest rate stress test is carried out when assessing a customer’s debt servicing ability; lenders must ensure that the customer has sufficient funds to cover regular expenses in the event of an interest rate hike of 3 percentage points. At a minimum, the customer must be able to cover regular expenses if the interest rate is 7%. With a fixed interest rate loan, the stress test applies to the remaining debt according to the down-payment plan at the end of the fixed interest rate period, with expected growth in income and costs taken into account. In Estonia, while the DSTI limit of 50% remained unchanged, the calculation principles of the DSTI requirement were modified. In particular, the calculation of the loan payments must be based on either the interest rate set out in the contract, or 6%, whichever is higher. Previously, either an add-on of 2% to the average loan interest rate, or 6%, was applied, whichever was higher. Thus, the add-on was removed.

During the review period, Austria changed the legal status of its BBMs from binding to non-binding and took two decisions on BBMs during the review period. First, it introduced a change in the exemption bucket of its currently implemented BBMs in the RRE market, in particular, for DSTI ratios, LTV ratios and loan maturity limits, applicable from July 2024. The four separate exemption buckets for BBMs that were based on specific ratios have been merged into a single institution-specific exemption bucket for 20% of new lending volumes. This simplifies the administration of the exemption buckets for the currently implemented BBMs. Furthermore, in a separate action, these measures were changed from binding to non-binding, effective from July 2025.

3.7 Other measures

Hungary modified the institutional scope of three macroprudential financing regulations by modifying existing de minimis limits, to reduce the compliance burden and regulatory difficulties for smaller banks and institutions. The amendments do not address specific macroprudential risks but aim to ease the compliance of non-material banks and/or banking groups with the exemption of institutions that are not important individually on a systemic risk level. The changes were as follows: (i) introduction of a de minimis limit of HUF 100 billion for the balance sheet total for the foreign exchange funding adequacy ratio; (ii) introduction of a de minimis limit of HUF 100 billion for the balance sheet total for the foreign exchange coverage ratio; and (iii) an increase of the de minimis limit of HUF 30 billion to HUF 100 billion for the balance sheet total for the interbank funding ratio. From 1 October 2024 onwards, only banks, including branches and banking groups with a balance sheet total of more than HUF 100 billion, will be obliged to comply with these regulations.

With regard to measures targeting banks' funding risks, Hungary amended its Mortgage Funding Adequacy Ratio (MFAR) Regulation, which is designed to reduce banks' maturity mismatches. Under the previous amendment of the MFAR Regulation that came into force on 1 July 2022, foreign currency mortgage bonds and refinancing loans were accepted, but any new foreign currency funds could only be employed to finance energy-efficient mortgages after 1 October 2023. However, the macroprudential authority decided that more preparation time was required to fulfil this requirement and therefore postponed the green requirement, initially by one year, to 1 October 2024, and following the current amendment, for an indefinite period from 1 October 2024.

Outside the banking sector, on 29 April 2024 the Luxembourg Commission de Surveillance du Secteur Financier and the Central Bank of Ireland announced that they would introduce of leverage limits in accordance with Article 25(3) of the AIFMD. The measures were designed by the two national competent authorities (NCAs) working in cooperation. In accordance with Article 25(3), the competent authorities of the home Member State of the AIFM must notify the ESRB, among others, before imposing leverage limits. The ESRB received this notification in the previous review period and the measures were also described in the ESRB's 2023

Annual Report. They apply to alternative investment fund managers of funds denominated in pounds sterling that pursue LDI strategies. These managers are expected to maintain a "yield buffer" of a size that would enable their funds to withstand an increase in UK government bond yields of 300 basis points before the net asset value (NAV) turns negative. By setting a yield buffer, the NCAs have limited the leverage that a fund can employ, contingent on its duration. This is because the amount and duration of a fund's exposures determine the minimum NAV that it would need ex ante for the NAV to remain positive after a 300 basis point increase in yields.

3.8 Reciprocation

The aim of reciprocation is to ensure that the same macroprudential measure applies to all financial institutions within the EU that are exposed to the risk targeted by the measure in question, regardless of where the institutions are located. Macroprudential measures adopted in one Member State often apply only to the financial institutions domiciled in that Member State. Such measures do not generally apply, therefore, to the exposures of financial institutions authorised in other Member States. Reciprocation occurs when the relevant authority in the reciprocating Member State applies a macroprudential measure that is the same as, or equivalent to, a measure taken in the activating Member State. Hence, reciprocity is a policy instrument that ensures that these measures, or equivalent ones, also apply to institutions domiciled in another Member State for the relevant exposures located in the activating Member State, which would not otherwise be covered. The reciprocation of macroprudential measures enhances the effectiveness and consistency of macroprudential policy in the EU and contributes to a level playing field in the Single Market. At the end of 2015 the ESRB put in place a **framework of voluntary reciprocity for macroprudential policy measures**.⁴⁹ The reciprocity framework lays the foundations for a coordinated approach to the reciprocation of those macroprudential measures for which EU legislation does not foresee mandatory recognition. The reciprocation process is initiated by means of a formal request submitted to the ESRB by the authority that activated the initial measure. If it is deemed justified, the ESRB will issue a recommendation to reciprocate the measure.

During the review period, the ESRB started to specify in its recommendations on reciprocating specific national measures whether Member States should recognise another Member State's macroprudential measure on an individual, sub-consolidated and/or a consolidated basis, with reciprocity recommended on all levels as a baseline. Deviations from this principle are possible when there

⁴⁹ The reciprocity framework is outlined in the following documents: (i) Recommendation ESRB/2015/2 of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (OJ C 97, 12.3.2016, p. 9); (ii) Article 5 of the Decision of the European Systemic Risk Board of 16 December 2015 on a coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB, and repealing Decision ESRB/2014/2 (ESRB/2015/4) (OJ C 97, 12/03/2016, p. 28); and (iii) Chapter 11 ("Cross-border effects of macroprudential policy and reciprocity") of the ESRB Handbook on operationalising macroprudential policy in the banking sector.

are valid reasons, for instance, when a risk addressed by the measure is already adequately covered by other measures applying to a group in the reciprocating country. The aim is to ensure that additional capital held by one part of a banking group to address heightened macroprudential risks cannot be used to meet other requirements within the group. If a banking group, through one of its entities, is exposed to higher macroprudential risks, the group as a whole should hold more capital. This is essential for achieving the desired level of macroprudential resilience. Applying all macroprudential requirements on a consolidated basis also preserves a level playing field. Allowing banking groups to use additional macroprudential capital requirements to meet capital requirements elsewhere within the group (“double gearing”) provides them with an advantage over competitors who do not have such possibilities to “save” capital.

In line with its reciprocity framework, the ESRB recommended the reciprocation of a new SyRB measure activated by Italy. Italy notified the ESRB of its reciprocation request concerning a sectoral SyRB measure on 12 March 2024. As indicated in Section 3.3, the goal of this measure is to further increase the resilience of the Italian banking system to shocks and to enhance the capacity of banks to absorb possible losses and to continue to finance Italian firms and households. The ESRB recommended the reciprocation of the measure on an individual and a consolidated basis, with an institution-specific materiality threshold of €25 billion.

The ESRB also recommended the reciprocation of a new sectoral SyRB measure introduced by Denmark. As described in Section 3.3, the reason for the activation of the 7% sectoral SyRB is the significantly increasing share of lending by Danish credit institutions to real estate companies. To prevent the materialisation of negative cross-border effects in the form of leakages and regulatory arbitrage, that could result from the implementation of the macroprudential policy measure that will become applicable in Denmark, the ESRB recommended the reciprocation of the measure on an individual and a consolidated basis, with a maximum institution-specific materiality threshold of €200 million.

The ESRB also continued to recommend the reciprocation of the sectoral SyRB measures set by Belgium. The measure concerns a 6% sectoral SyRB for IRB retail exposures secured by residential immovable property for which the collateral is located in Belgium. The ESRB decided to continue recommending the reciprocation of the measure and to recommend the reciprocation of the measure on a consolidated, sub-consolidated and individual basis. The aim is to prevent the materialisation of negative cross-border effects in the form of leakages and regulatory arbitrage, that could result from the implementation of the macroprudential policy measure applied in Belgium, as well as to preserve a level playing field among EEA credit institutions.

Finally, the ESRB continued to recommend the reciprocation of the SyRB measure that has been extended for a further two years in Norway. The measure comprises an SyRB of 4.5% for all exposures located in Norway. The materiality threshold for reciprocating the SyRB was maintained at a risk-weighted

exposure amount of NOK 5 billion. The ESRB recommended the reciprocation of the measure on a consolidated, sub-consolidated and individual basis.

4 Institutional framework: implementation and accountability

This section provides an overview of the action taken to enhance the ESRB's accountability. First, it explores the outcomes of the assessments of compliance with ESRB recommendations carried out in the review period. Second, it gives an account of the ESRB's reporting to the European Parliament and describes some of the events that the ESRB organised over the review period.

4.1 Assessment of compliance with ESRB recommendations

The main tools used by the ESRB for the purpose of fulfilling its mandate of preventing and mitigating risks to financial stability are warnings and recommendations. ESRB recommendations stipulate remedial actions and set deadlines for their implementation by addressees. Although not legally binding, these recommendations are subject to a “comply or explain” regime in accordance with Article 17 of the ESRB Regulation.⁵⁰ Therefore, addressees of recommendations – i.e. the EU as a whole, Member States, the ESAs, national authorities, designated authorities, resolution authorities, the ECB (in its capacity as banking supervisory authority), the Single Resolution Board and the European Commission – must report to the ESRB, the European Parliament, the Council and the Commission either the actions that they have taken to comply with a recommendation or provide adequate justification in the case of inaction.

Assessing compliance with ESRB recommendations is key to the effective implementation of ESRB measures. In recent years, the ESRB has issued several recommendations designed to address various sources of cross-sectoral and sector-specific systemic risk. Given the diversity of the topics concerned, the ESRB assesses the level of compliance with each recommendation through dedicated Assessment Teams. These teams, composed of experts from ESRB member institutions, are established under the auspices of the Advisory Technical Committee and supported by ESRB Secretariat staff. The assessment procedure provides opportunities for dialogue with the addressees. The compliance reports are approved by the General Board and published on the ESRB's website under the recommendations concerned.⁵¹

Over the period in review, there was a high level of compliance with the ESRB recommendations that were assessed. Specifically, between April 2024 and March 2025, the Assessment Teams completed seven assessments of compliance

⁵⁰ Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

⁵¹ See ESRB recommendations.

with ESRB recommendations.⁵² Most of the addressees were assessed as being “fully compliant” or “largely compliant” across the recommendations. For one recommendation, the addressee was assessed as “materially non-compliant”.

The compliance report for Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework for relevant authorities shows that the level of compliance was high and that the addressees recognised the importance of an effective EU-level coordinated response in the event of a major cross-border cyber incident or related threat that could have a systemic impact on its financial sector. There was full compliance with sub-recommendation A(1), recommending that the ESAs, together with the ECB, the ESRB and relevant national authorities, start preparing for the gradual development of an effective coordinated EU-level response, entailing the gradual development of a pan-European systemic cyber incident coordination framework (the “EU-SCICF”). Recommendation B concerns the establishment of points of contact for the EU-SCICF and the majority (94%) of the addressees – i.e. the ESAs, the ECB and Member States – were assessed as “fully compliant”. Two addressees were assessed as “largely compliant”. No formal assessment process was initiated for Recommendation C, addressed to the European Commission and concerning the adoption of appropriate measures at the EU level, as the corresponding report was provided solely for information purposes.

The compliance report for country-specific recommendations on medium-term vulnerabilities in the RRE sector in Germany (ESRB/2021/10) and Austria (ESRB/2021/11) shows that, in general, the level of compliance was high as the overall grade attributed to both addressees – i.e. Germany and Austria – was “fully compliant”. Although three of the six sub-recommendations were not implemented, the explanations provided for inaction were deemed appropriate and sufficient and not substantial enough to change the overall grade appointed.

The compliance report for Recommendation ESRB/2014/1 on guidance for setting countercyclical buffer rates shows that, between the previous assessment in 2017

⁵² Namely, in respect of:

- Recommendation of the European Systemic Risk Board of 2 December 2021 on a pan-European systemic cyber incident coordination framework for relevant authorities (ESRB/2021/17) (OJ C 134, 25.3.2022, pp. 1-10);
- Recommendation of the European Systemic Risk Board of 2 December 2021 on medium-term vulnerabilities in the residential real estate sector in Germany (ESRB/2021/10), (OJ C 122, 17.3.2022, pp. 1-8);
- Recommendation of the European Systemic Risk Board of 2 December 2021 on medium-term vulnerabilities in the residential real estate sector in Austria (ESRB/2021/11) (OJ C 122, 17.3.2022, pp. 9-14);
- Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1) (OJ C 293, 2.9.2014, pp. 1-10);
- Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2) (OJ C 97, 12.03.2016, pp. 9-14);
- Recommendation of the European Systemic Risk Board of 31 October 2016 on closing real estate data gaps (ESRB/2016/14) (OJ C 31, 31.1.2017, pp. 1-42);
- Recommendation of the European Systemic Risk Board of 1 December 2022 on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9) (OJ C 39, 1.2.2023, pp. 1-14);
- Recommendation of the European Systemic Risk Board of 2 December 2021 on reform of money market funds (ESRB/2021/9) (OJ C 129, 22.3.2022, pp. 1-10).

The Recommendations and compliance reports are available on the ESRB's website.

and this one, the overall level of compliance with the recommendation remained high. All addressees – i.e. national designated authorities – were graded either “fully compliant” or “largely compliant” with the recommendation. In general, for most addressees, the overall level of compliance remained unchanged from the previous assessment. However, the number of addressees graded “largely compliant” increased from two to three, owing to certain deficiencies in compliance with Recommendation B, relating to the methodology applied by the designated authorities in measuring and calculating the credit-to-GDP gap, the benchmark buffer rate and the buffer guide, or Recommendation C, relating to the variables used by designated authorities to set a CCyB rate during periods of system-wide risk build-up. One country that had not previously been assessed was assigned a grade of “largely compliant”. As in the previous assessment, this included the ECB-SSM among the addressees of the recommendation, in accordance with its macroprudential remit, as set out in Article 5 of the SSM Regulation.⁵³ The overall assessment of the ECB was high, given that it was graded as “fully compliant” for Recommendations A, establishing the guiding principles that the designated authorities should adhere to when assessing and setting CCyB rates, B and C and that Recommendation D – relating to the variables used by the designated authorities to maintain, reduce or fully release their CCyB – was not applicable.

The [compliance report for Recommendation ESRB/2015/2 on the assessment of cross-border effects of macroprudential policy measures and voluntary reciprocity of those measures](#) shows that the recommendation has been fully implemented by most of the addressees – the authorities entrusted with the adoption and/or activation of macroprudential policy measures (i.e. NDAs, NCAs and other relevant macroprudential bodies). The results of the assessment point to a high level of compliance with the recommendation, with all of the 30 countries receiving an overall compliance grade of “fully compliant”. Additionally, the ECB-SSM was included in this assessment, although there were no instances of it having exercised its top-up powers under Article 5 of the SSM Regulation during the reference period. Therefore, a grade of “sufficiently explained” was attributed.

The [compliance report for ESRB recommendations on closing real estate data gaps \(ESRB/2016/14\) and on vulnerabilities in the CRE sector in the European Economic Area \(ESRB/2022/9\)](#) shows that the overall level of compliance with both recommendations is high. As for Recommendation F of ESRB/2016/14, the addressee – i.e. the European Commission (Eurostat) – showed high overall levels of compliance. The addressees of Recommendation A of ESRB/2022/9 – i.e. relevant authorities that have a role in financial stability, including national authorities, the ECB and the ESAs – were awarded grades of either “fully compliant” or “largely compliant”. In particular, the results demonstrate that for sub-recommendation A(1), which deals with monitoring vulnerabilities in CRE markets, most addressees have fully met the content-related requirements. With regard to compliance with sub-recommendation A(2), which emphasises regular monitoring of CRE-related risks, all addressees were assessed as “fully compliant”, demonstrating

⁵³ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287/63, 29.10.2013, p. 1).

their commitment to monitoring these risks on at least an annual basis, in accordance with the ESRB's guidelines. As for sub-recommendation A(3), which deals with coordination and cooperation in monitoring CRE-related risks, nearly all addressees demonstrated effective collaboration with other authorities and the ESRB, supporting the timely exchange of information and coordinated efforts in risk monitoring.

The **compliance report for Recommendation ESRB/2021/9 on reform of money market funds** shows that the European Commission was assessed as “materially non-compliant”. This was because three of the four recommendations – A, B and D, which recommended that the European Commission propose measures to reduce threshold effects (A), reduce liquidity transformation (B) and enhance monitoring and stress testing (D) – were not implemented and the justifications were not considered adequate and thus assessed as “insufficiently explained”. Recommendation C recommended that the European Commission propose that relevant EU legislation require the incorporation in the constitutional documents of MMFs and any other pre-contractual information of liquidity management tools. The European Commission should also mandate ESMA to develop criteria to be included in relevant EU legislation to facilitate the use of liquidity management tools by MMF managers in all market conditions, as well as guidance on those criteria. This recommendation was implemented and a grade of “largely compliant” was awarded. The compliance assessment was based on the Commission's actions and recommendations up until the end of 2023, particularly in its report on the adequacy of Regulation (EU) 2017/1131 of the European Parliament and of the Council on MMFs from a prudential and economic point of view, published in July 2023. The compliance report noted that after that period the Commission launched a targeted consultation to assess the adequacy of macroprudential policies for non-bank financial intermediation in May 2024. This included a chapter on MMFs as well as several questions related to the content of the recommendation, especially with respect to Recommendation D. However, at the time of the assessment, the consultation had not yet led to concrete steps being taken by the European Commission that could change the outcome of the compliance assessment.

Furthermore, a second assessment of compliance with Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework for relevant authorities has been initiated and is expected to be finalised and published in the course of 2025. This addresses sub-recommendation A(1) concerning a final report from the ESAs on the preparation for a gradual development of an effective EU-level coordinated response in the event of a major cross-border cyber incident or related threat that could have a systemic impact on the EU financial sector (EU-SCICF).

4.2 High-Level Group report

The ESRB General Board had asked the High-Level Group on the ESRB Review⁵⁴ (“the Group”) to contribute to the second review of the ESRB Regulation with strategic advice on the future of the ESRB. With a view to further enhancing the ESRB’s macroprudential oversight, the Group examined the institution’s work and its experiences over the past decade, including the regulations underpinning its functions. It also conducted a survey to elicit views from the members of the Advisory Technical Committee. The Group’s report was published in December 2024 and submitted to the European Commission, the European Parliament and the Council.

The Group agreed that the ESRB has successfully fulfilled its mandate of macroprudential oversight. Building on this foundation, the Group put forward eight recommendations focused on strengthening the ESRB’s holistic approach to systemic risk assessment, in particular by introducing an ESRB-led top-down system-wide stress test and further integrating cross-sectoral and cross-border perspectives. The recommendations also consider enhancing communication on financial stability, improving access to key data and fostering knowledge sharing, while also addressing some governance and resource implications. Following one of the Group’s recommendations, a master plan to implement the proposals is being developed under the Advisory Technical Committee’s guidance, aiming for General Board approval in the first half of 2025.

4.3 Reporting to the European Parliament and other institutional aspects

The Chair and First Vice-Chair of the ESRB attended hearings before the Committee on Economic and Monetary Affairs of the European Parliament (ECON) in line with the ESRB’s accountability and reporting obligations. During the period under review, the ESRB’s Chair, Christine Lagarde, attended one public hearing before ECON on 4 December 2024 and two confidential meetings with the ECON Chair and Vice-Chairs to discuss risks to financial stability. The ESRB’s First Vice-Chair, Governor Olli Rehn, attended the ECON public hearing on 20 February 2025 to discuss how he intends to discharge his duties.

At the hearing on 4 December 2024, the ESRB Chair underlined that financial stability is a prerequisite for sustainable growth. The Chair emphasised that as memories of past crises fade, the need for a robust and resilient regulatory framework remains crucial. Only a stable financial system – bolstered by sound microprudential and macroprudential policies – is able to support innovation, competitiveness and more integrated capital markets. The Chair called for a comprehensive, system-wide approach to address regulatory gaps, particularly in

⁵⁴ The High-Level Group on the ESRB Review included the First Vice-Chair of the ESRB Governor Olli Rehn (Chair), Advisory Scientific Committee Vice-Chair Professor Stephen Cecchetti, ECB Vice-President Luis de Guindos and Advisory Technical Committee Chair Pablo Hernández de Cos.

non-bank financial intermediation, while highlighting the importance of enhanced data sharing among authorities to identify and mitigate systemic risks. This forward-looking agenda, detailed in the [ESRB's report on a system-wide approach to macroprudential policy](#), sets the stage for strengthening the EU's financial oversight and ensuring that regulatory measures evolve in tandem with a rapidly changing financial landscape.

At the hearing on 20 February 2025, the ESRB's First Vice-Chair discussed the strategic advice on the future of the ESRB prepared by the High-Level Group and summarised in its report. The First Vice-Chair stressed that the ESRB's strength lies in its ability to monitor and assess systemic risks across the EU financial system using a holistic approach. He also stressed that, to this end, two key proposals have been laid out in the High-Level Group report: first, to include in the ESRB's mandate a top-down, system-wide stress test; and second, to enhance the ESRB's access to key granular datasets. Furthermore, the First Vice-Chair stressed the importance of clear and persuasive communication, noting that, even without binding powers, the ESRB's warnings and recommendations are essential for maintaining financial stability, which in turn supports sustainable growth and innovation across the EU.

Additionally, the Head of the ESRB Secretariat, Francesco Mazzaferro, was invited to the ECON public hearing on "Assessing the adequacy of the macroprudential framework for non-bank financial institutions in the EU" on 19 March 2025. In his [introductory remarks](#), he referred to the ESRB's system-wide approach to macroprudential policy. The ESRB has applied this system-wide approach to three activities that involve both banks and non-banks: asset management, clearing and lending. The Head of the ESRB Secretariat also noted that more work needs to be done, but the ESRB could already see a case for enhancing transparency in asset management activities, incentivising the central clearing of government bond cash and repo markets, as well as enabling authorities to set BBMs and exposure concentration limits for highly indebted firms, regardless of whether the lending is provided by a bank or a non-bank.

Finally, the Head and the Deputy Head of the ESRB Secretariat regularly update the Economic and Financial Committee on the ESRB risk assessment. The Economic and Financial Committee is an EU committee set up to promote policy coordination among Member States. In addition, the Head and the Deputy Head of the ESRB Secretariat regularly represent the ESRB in meetings of the Boards of Supervisors of the ESAs.

4.4 ESRB public events

Each year the Advisory Scientific Committee awards the Ieke van den Burg prize in recognition of outstanding research by young scholars on topics related to the ESRB's mandate. The prize was established in 2014 in memory of Ieke van den Burg, who was a member of the Advisory Scientific Committee (2011-14) and a member of the European Parliament (1999-2009). In 2024 the prize was

awarded to Tsvetelina Nenova for her paper entitled “Global or Regional Safe Assets: Evidence from Bond Substitution Patterns”.

The eighth ESRB Annual Conference took place on 26 and 27 September 2024 as a hybrid event dedicated to New Frontiers in Macroprudential Policy. The conference was **opened** by the ESRB Chair, Christine Lagarde, on the first day, and **on the second day** by Pablo Hernández de Cos (Chair of the Advisory Technical Committee and former Governor of Banco de España). It included four panels. The first was chaired by Luis de Guindos (Vice-President of the ECB) and focused on macroprudential policy beyond banking. The second concerned Artificial Intelligence and systemic risk and was chaired by Andréa Maechler (Deputy General Manager of the Bank for International Settlements). The third panel covered systemic liquidity risk and was chaired by Stephen Cecchetti (Professor at the Brandeis International Business School and Vice-Chair of the ESRB Advisory Scientific Committee). The last panel focused on emerging risks and macroprudential policy and was chaired by Thorsten Beck (Professor at the European University Institute and Chair of the ESRB Advisory Scientific Committee). Two keynote speeches were also given. The first was by Claudia Buch (Chair of the Supervisory Board of the ECB) and was entitled “**Global risks and financial shifts: Supervising banks in an era of geopolitical instability**”. The second, entitled “**Old and new frontiers of the ESRB: Systemic risk, non-banks and data analysis**”, was delivered by Olli Rehn (ESRB First Vice-Chair, Governor of Suomen Pankki). Finally, Francesco Mazzaferro, in his capacity as Head of the ESRB Secretariat, concluded the conference with **closing remarks**. The **recording of this conference** is available on the ESRB’s website.

On 6 and 7 November 2024 the ESRB held its annual meeting with the Committee of European Auditing Oversight Bodies and statutory auditors of EU-based global systemically important financial institutions (G-SIFIs). This meeting is mandatory under **EU law** in order to inform the ESRB of sectoral developments or any significant developments relating to G-SIFIs. The meeting took place in a hybrid format. After the parties summarised their activity throughout the last year, the discussion focused first on the prevailing environment of uncertainty and how macroprudential policy can respond to this. The next topics of discussion revolved around the role of deposits and derivatives in the management of interest rate risk in banks’ balance sheets, which was then followed by a discussion on the first implementation of European Sustainability Reporting Standards. The last item of discussion touched upon on the growth of asset-based reinsurance in some jurisdictions. Finally, in terms of other risks, meeting participants mentioned climate change, Artificial Intelligence and the valuation of real estate.

On 22 November 2024 Olli Rehn (ESRB First Vice-Chair, Governor of Suomen Pankki) delivered a keynote speech at the CFA Institute Systemic Risk Council, which focused on addressing systemic risks to financial stability in the EU.

Annex: Publications on the ESRB's website from 1 April 2024 to 31 March 2025

Working papers

Mitigating fragility in open-ended investment funds: the role of redemption restrictions
02/01/2025

Microstructure implications of ETF arbitrage with custom baskets
02/01/2025

Fund-Level FX Hedging Redux
04/11/2024

Occasional papers

A map of the euro area financial system
01/08/2024

ESRB reports

Systemic liquidity risk: a monitoring framework
03/02/2025

Using the countercyclical capital buffer to build up resilience early in the cycle
31/01/2025

Building on a decade of success
18/12/2024

A system-wide approach to macroprudential policy – ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation
04/12/2024

EU Non-bank Financial Intermediation Risk Monitor 2024
13/06/2024

Advancing macroprudential tools for cyber resilience – Operational policy tools
16/04/2024

Climate-related risks and accounting
03/04/2024

Risk dashboards

ESRB risk dashboard, November 2024 (Issue 50)
Annex I
Annex II
05/12/2024

ESRB risk dashboard, September 2024 (Issue 49)
Annex I
Annex II
04/10/2024

ESRB risk dashboard, June 2024 (Issue 48)
Annex I
Annex II
27/06/2024

Stress testing

Macro-financial scenario for the 2025 EU-wide banking sector stress test (updated on 28 February 2025)
28/02/2025

Adverse scenario for the 2024 European Securities and Markets Authority's money market fund stress-testing guidelines
07/01/2025

Climate-related scenarios for the one-off Fit-for-55 scenario analysis exercise
19/11/2024

Adverse scenario for the 2024 European Insurance and Occupational Pensions Authority's insurance sector stress test exercise
04/04/2024

Opinions

Opinion of the European Systemic Risk Board of 7 October 2024 regarding the Norwegian notifications of the resetting of the systemic risk buffer pursuant to Article 133 and of the resetting of the O-SII buffer pursuant to Article 131 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions (ESRB/2024/6)

Report

04/12/2024

Opinion of the European Systemic Risk Board of 21 August 2024 regarding the Dutch notification of an extension of the period of application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions (ESRB/2024/4)

Report

28/10/2024

Opinion of the European Systemic Risk Board of 23 May 2024 regarding the Norwegian notification of an adjustment of the risk weight set for commercial immovable property pursuant to Articles 124(2) and 126(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (ESRB/2024/1)

Report

01/07/2024

Opinion of the European Systemic Risk Board of 16 November 2023 regarding the Danish notification of the setting or resetting of a systemic risk buffer rate pursuant to Article 133 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions (ESRB/2023/12)

Report

30/04/2024

ASC reports

Addressing banks' vulnerability to deposit runs: revisiting the facts, arguments and policy options

29/08/2024

Compliance reports

Recommendation A of Recommendation on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9), and Recommendation F of Recommendation on closing real estate data gaps (ESRB/2016/14) –

Summary Compliance report

28/02/2025

Country-specific Recommendations of the European Systemic Risk Board of 2 December 2021 on medium-term vulnerabilities in the residential real estate sector in Germany (ESRB/2021/10) and Austria (ESRB/2021/11), respectively – Compliance

Report

04/07/2024

Summary Compliance report on sub-Recommendation A(1), Recommendation B and Recommendation C of the Recommendation of the European Systemic Risk Board of 2 December 2021 on a pan-European systemic cyber incident coordination framework for relevant authorities (ESRB/2021/17)

27/06/2024

Recommendations

Recommendation of the European Systemic Risk Board of 3 December 2024 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2024/7)

03/12/2024

Recommendation of the European Systemic Risk Board of 8 July 2024 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2024/3)

08/07/2024

Recommendation of the European Systemic Risk Board of 11 June 2024 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2024/2)

11/06/2024

Responses and letters

ESRB response to the ESMA consultation on the conditions of the Active Account Requirement following the review of the EMIR

27/01/2025

ESRB advice to EIOPA on the criteria for identification of exceptional sector-wide shocks (Article 144 c (7))¹

20/12/2024

ESRB response to the ESMA consultation on draft Regulatory Technical Standards and Guidelines on liquidity management tools

02/09/2024

ESRB letter to the European Parliament – Data sharing between the European Supervisory Authorities and the ESRB

19/08/2024

ESRB letter to the European Commission – Data sharing between the European Supervisory Authorities and the ESRB

19/08/2024

ESRB letter to the Council of the European Union – Data sharing between the European Supervisory Authorities and the ESRB

19/08/2024

ESRB advice to EIOPA on the prudential treatment of environmental and social risks

23/04/2024

ESRB response to the consultative report by the BCBS, CPMI and IOSCO on transparency and responsiveness of initial margin in centrally cleared markets

17/04/2024

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For specific terminology please refer to the [ESRB glossary](#) (available in English only).

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