

Press conference

Financial Stability Review 2021

Frankfurt am Main, 25 November 2021

Key messages of the 2021 Financial Stability Review



The financial system has functioned well during the pandemic, but existing vulnerabilities are continuing to build up.



Preventive action needs to be stepped up again now to equip the financial system to deal with future risk.



**Effective climate action will reduce risks to financial stability.
Transition risks stemming from higher carbon prices appear manageable.**

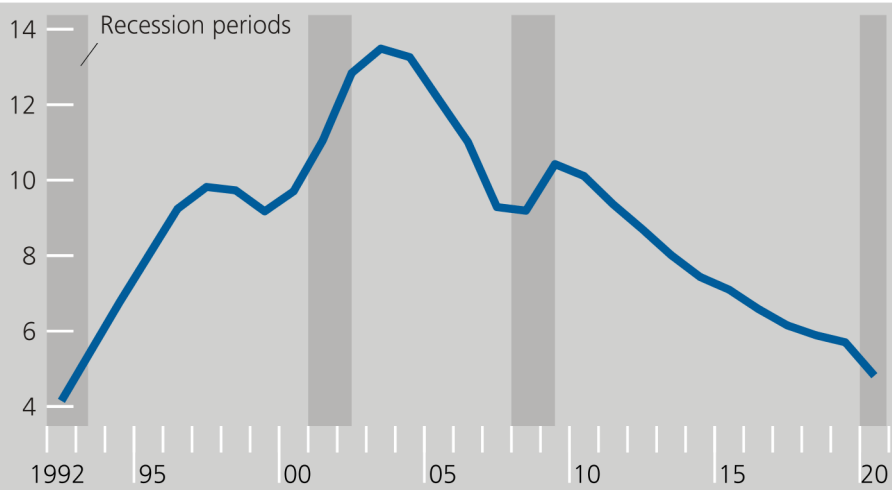


**The financial system has functioned well during the pandemic,
but existing vulnerabilities are continuing to build up.**

There were significantly fewer solvencies during the pandemic than expected. Unemployment barely increased.

Corporate insolvencies

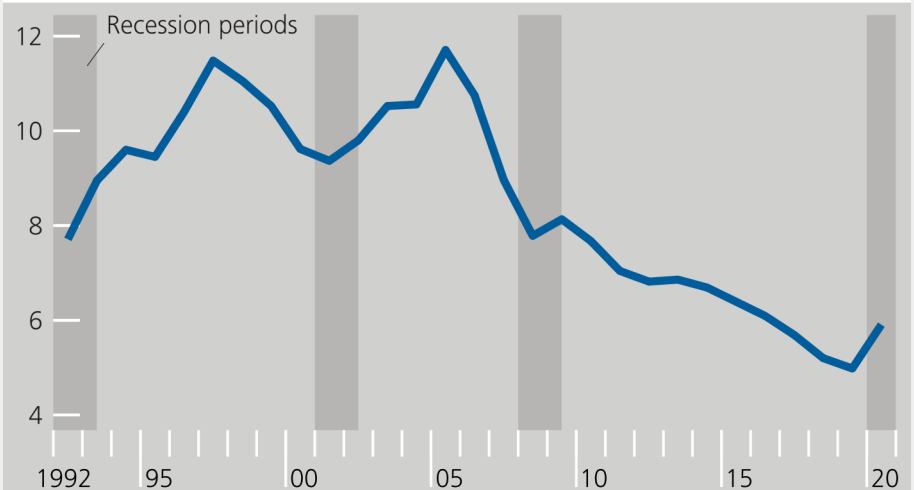
Number per 1,000 enterprises



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Unemployment

In %

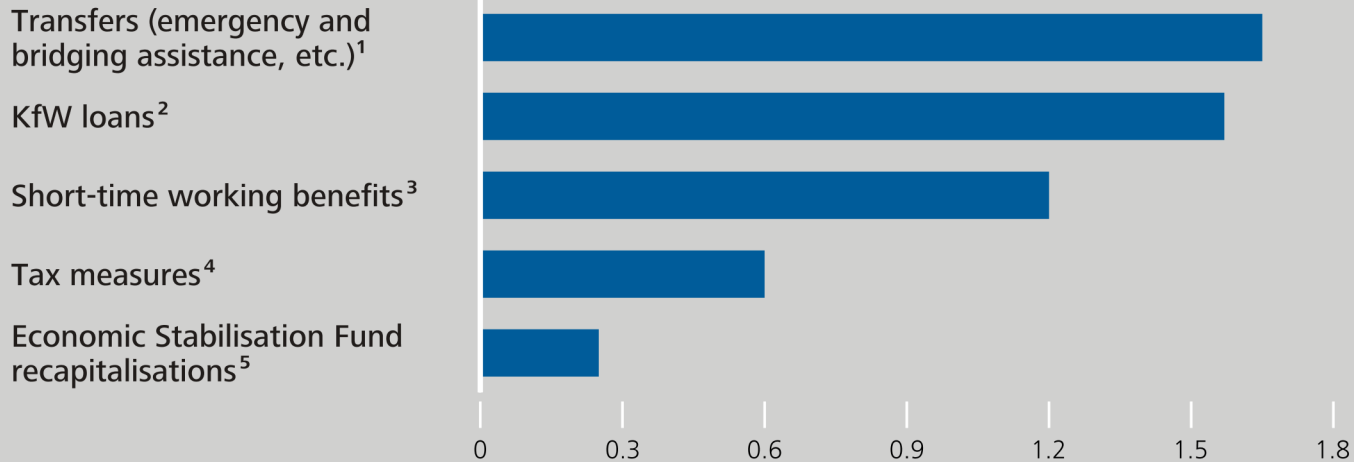


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Government measures shielded the real economy and thus the financial sector against fallout from the pandemic.

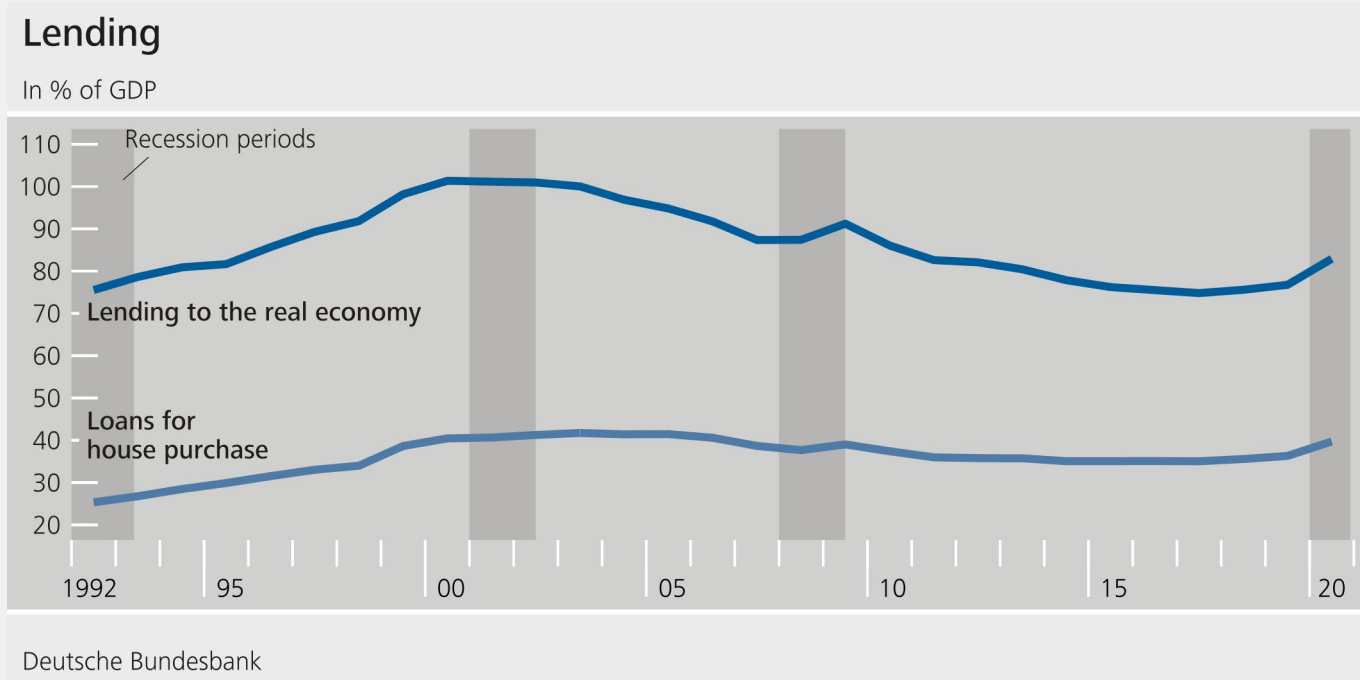
Key measures to support the corporate sector

Utilisation between Mar. 2020 and Oct. 2021, as a percentage of 2019 GDP



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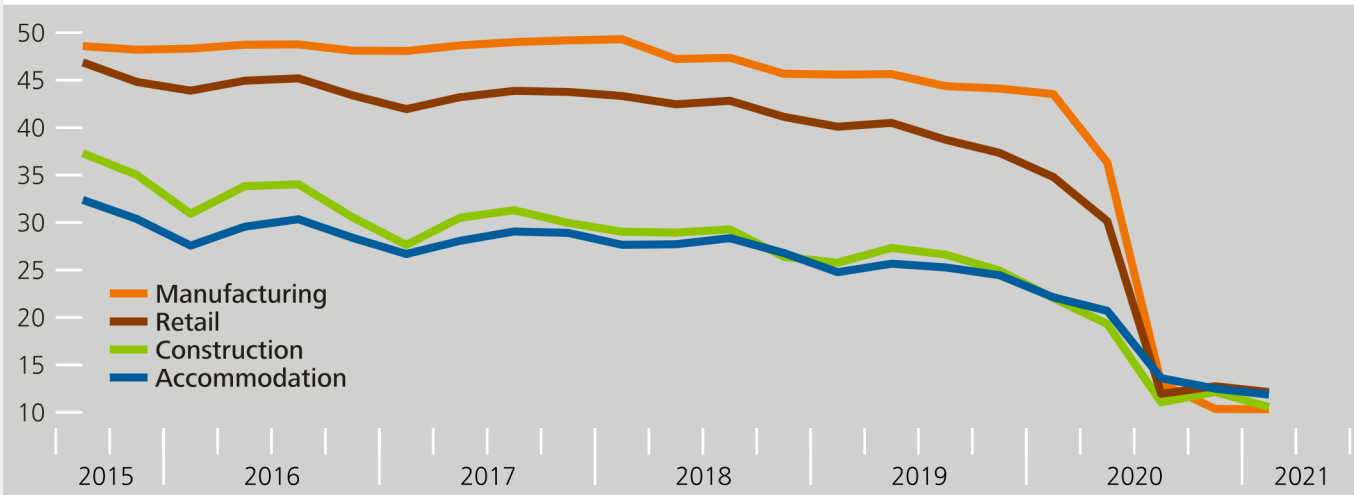
■ The financial system functioned and the supply of credit was maintained.



Banks barely had to absorb any losses. The link between credit risk and GDP growth has become much weaker.

Correlation between GDP and credit default rates

% based on rolling regressions with sample periods starting in Q2 2008



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Unlike in earlier recessions, the number of insolvencies did not rise during the coronavirus pandemic on account of fiscal measures.

Gross domestic product and corporate insolvencies

Percentage changes during the respective recession

Corporate insolvencies



Deutsche Bundesbank

Vulnerabilities to adverse macroeconomic developments continued to build up during the pandemic.



Underestimation of credit risk



Interest rate risk



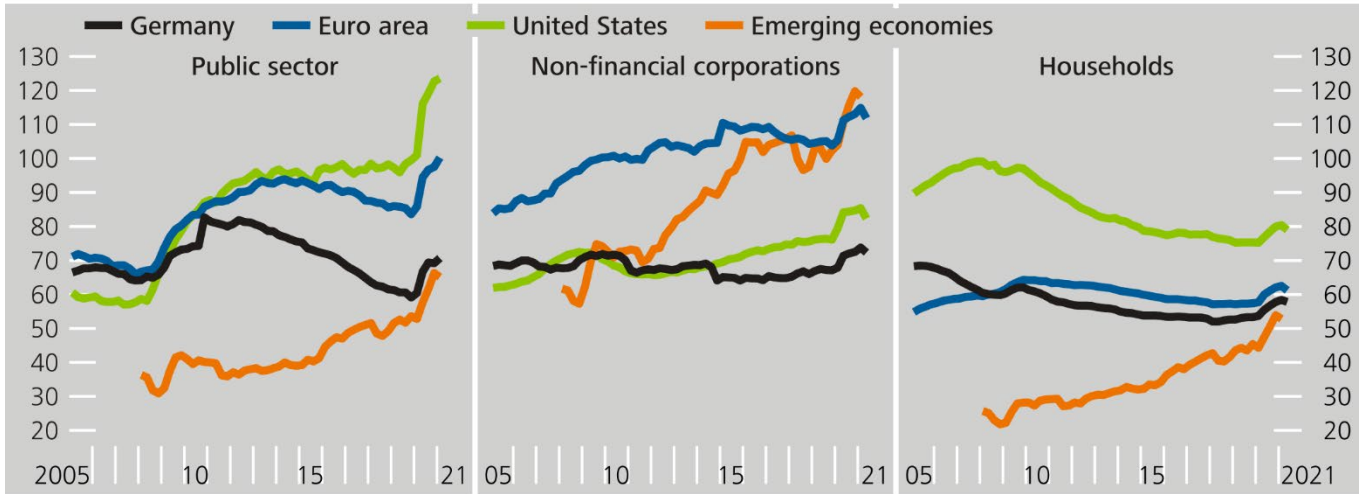
Overvaluation of assets and loan collateral

Debt levels have increased worldwide.



Public and private sector debt

As a percentage of GDP



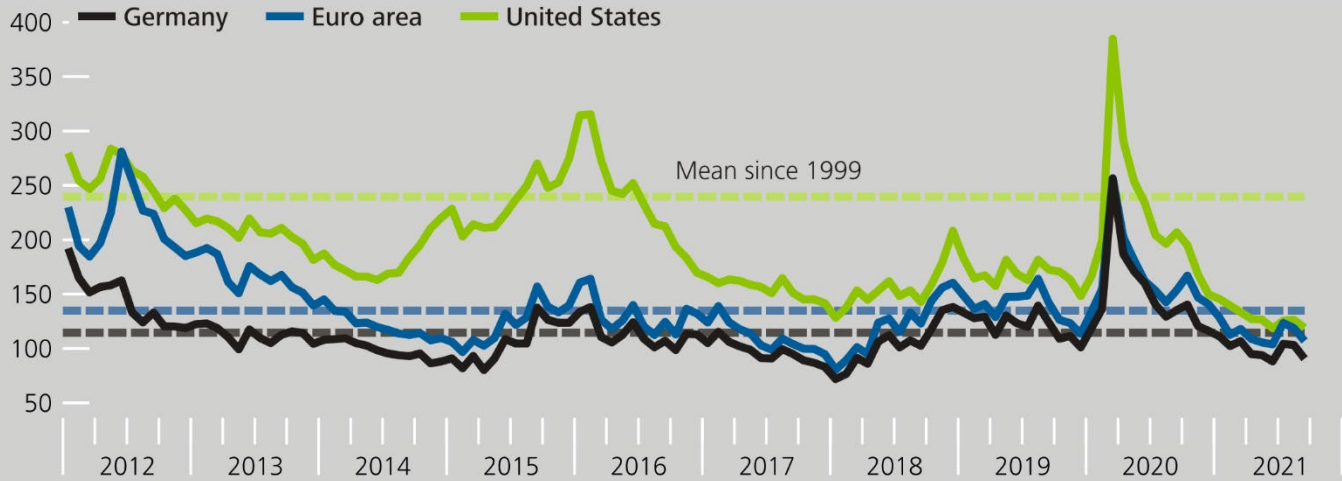
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Risk premia in global markets are falling.



Risk premia on bonds issued by non-financial corporations

Basis points, monthly data



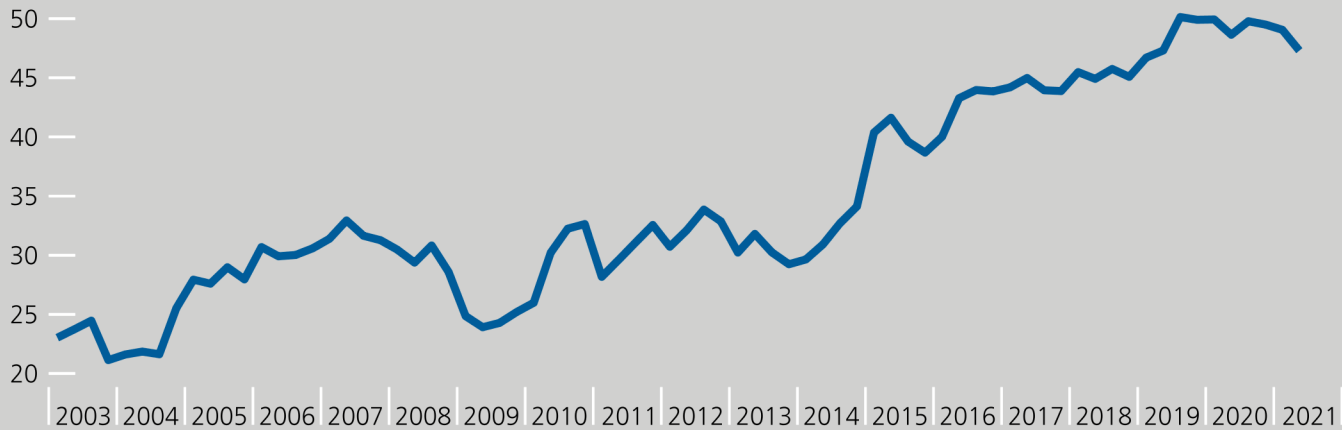
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In the short term, rising interest rates would put banks, in particular, under pressure.



Loans for house purchase with an interest rate lock-in period of more than 10 years

As a percentage of newly issued loans for house purchase to households

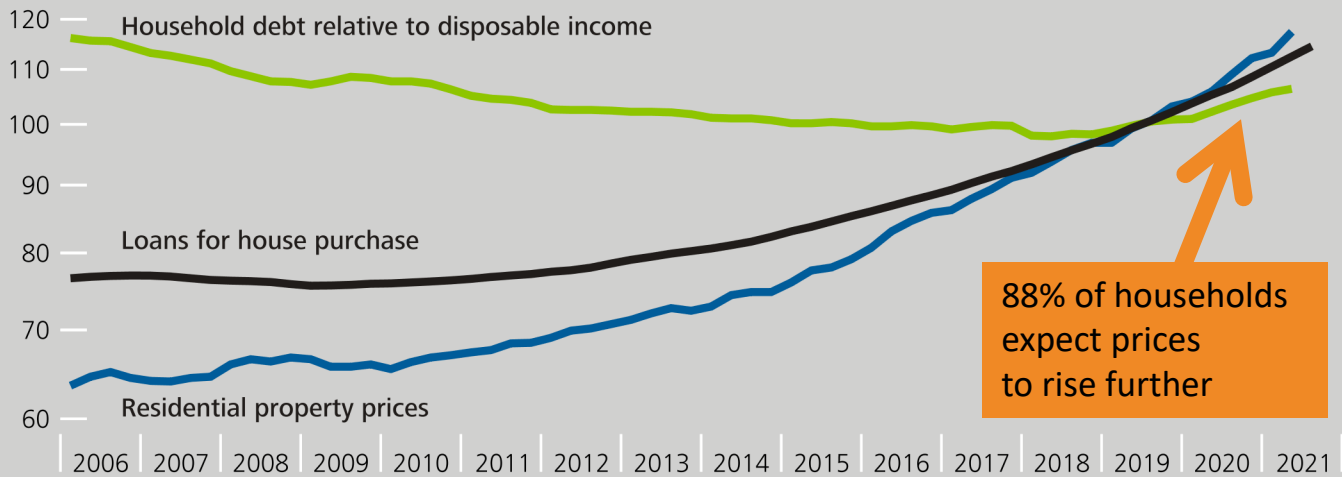


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In Germany, the upswing on the residential real estate market is ongoing.

Residential real estate market and household debt

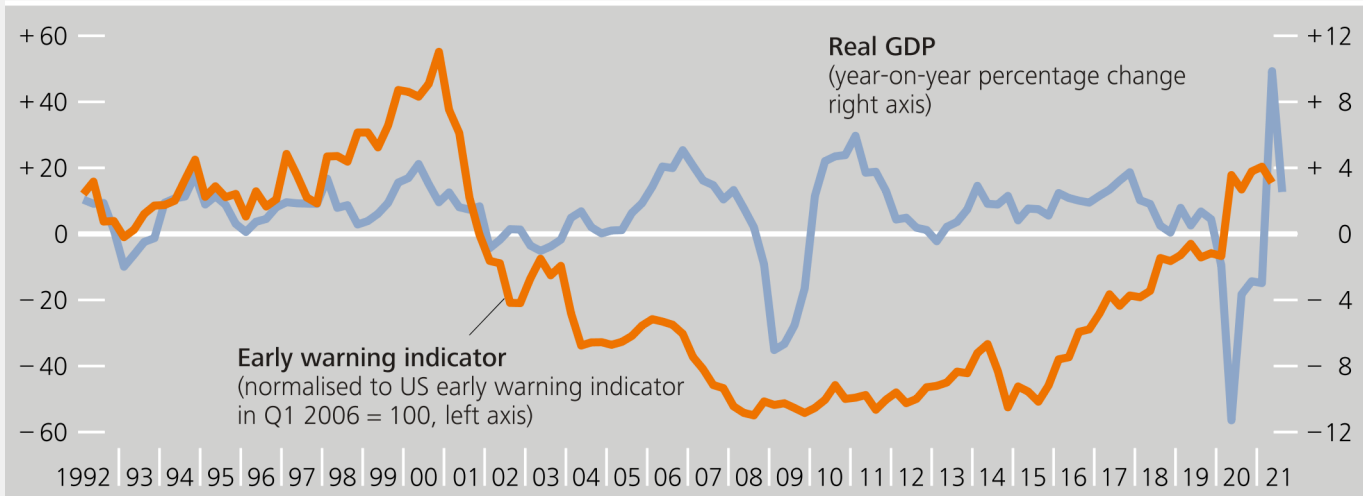
Q4 2019 = 100



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■ The build-up of the financial cycle was not interrupted by the pandemic.

Cyclical vulnerabilities

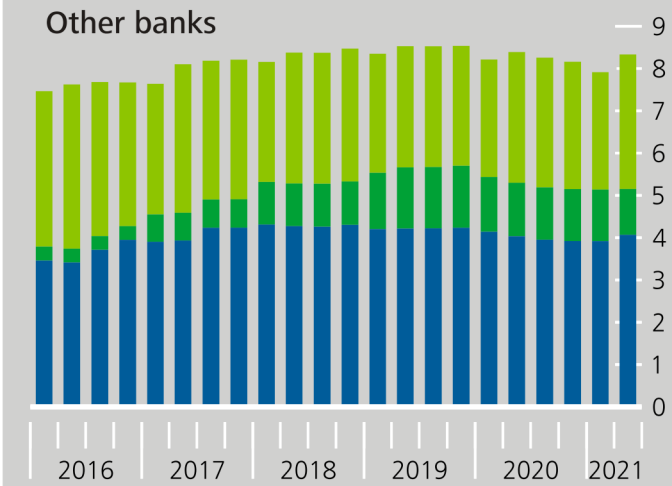
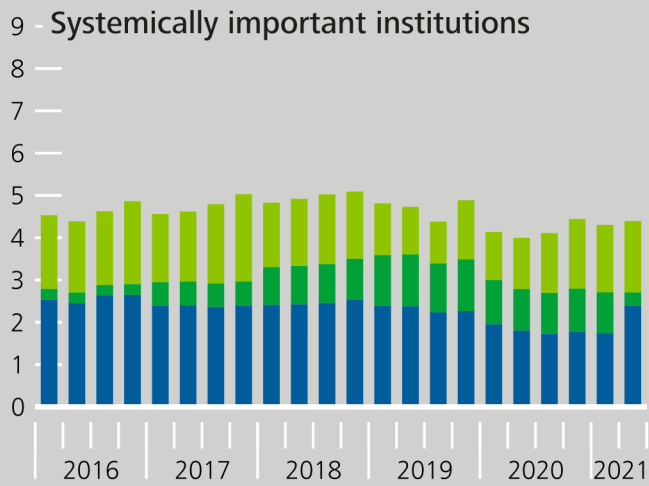


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The banking sector can withstand smaller shocks. However, capital buffers would need to be used to stabilise lending in the event of larger losses.

CET 1 capital of German banks

As a percentage of total assets ■ Minimum requirements ■ Capital buffers ■ Excess capital



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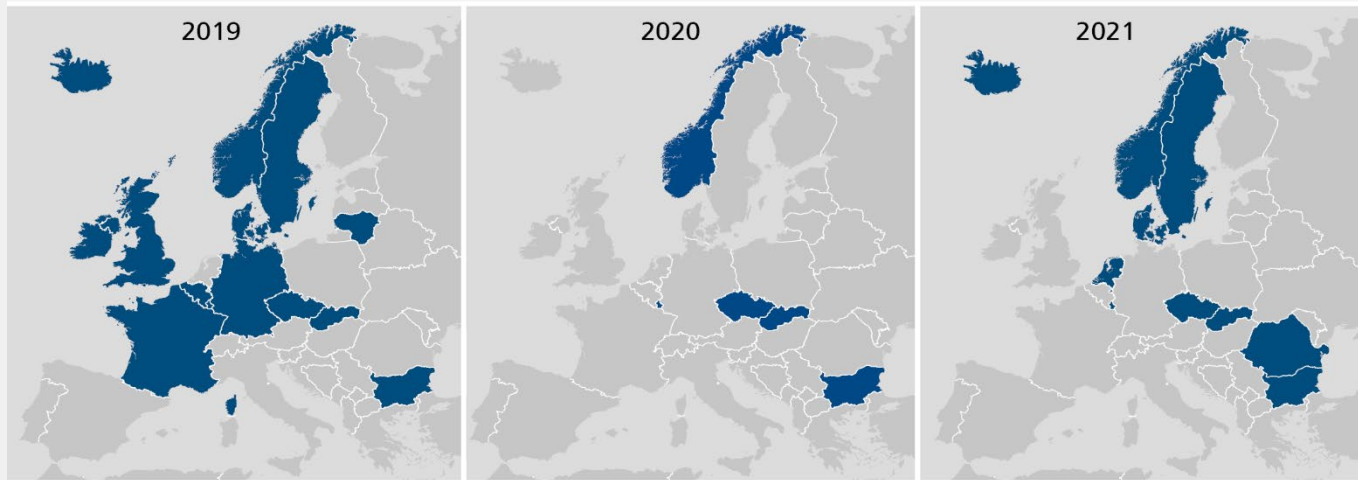


Preventive action needs to be stepped up again now to equip the financial system to deal with future risk.

The countercyclical capital buffer is built up when the economy is in good shape so that it can be used in tougher times.

Countercyclical capital buffer in Europe

Countries with a positive CCyB rate, as at October 2021



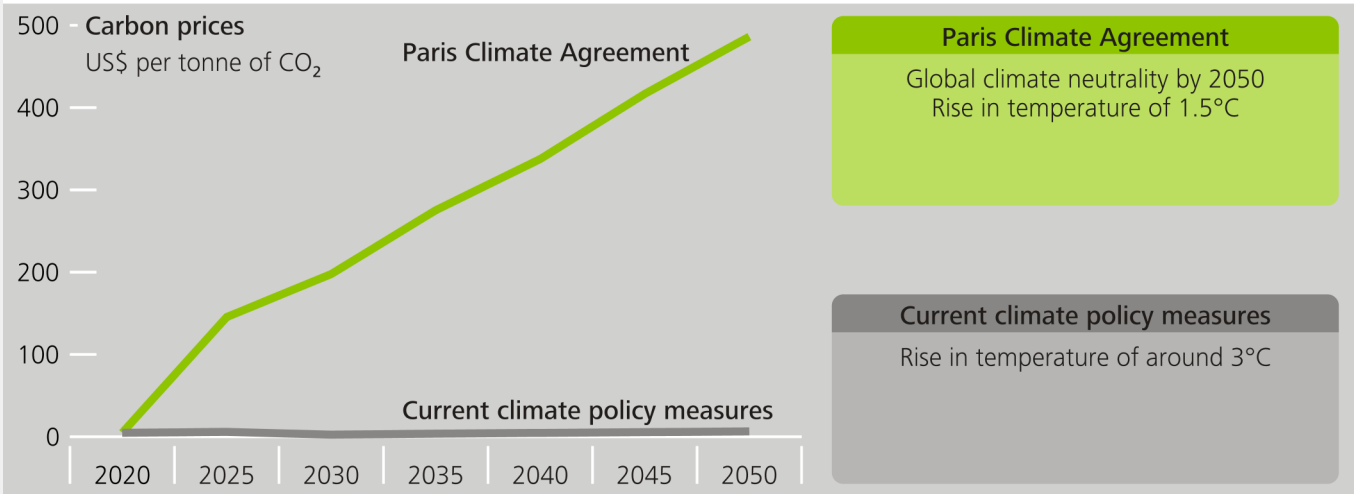
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**Effective climate action will reduce risks to financial stability.
Transition risks stemming from higher carbon prices appear manageable.**

An unexpected rise in carbon prices would result in a revaluation of loans and financial assets.

Carbon prices in the climate scenarios

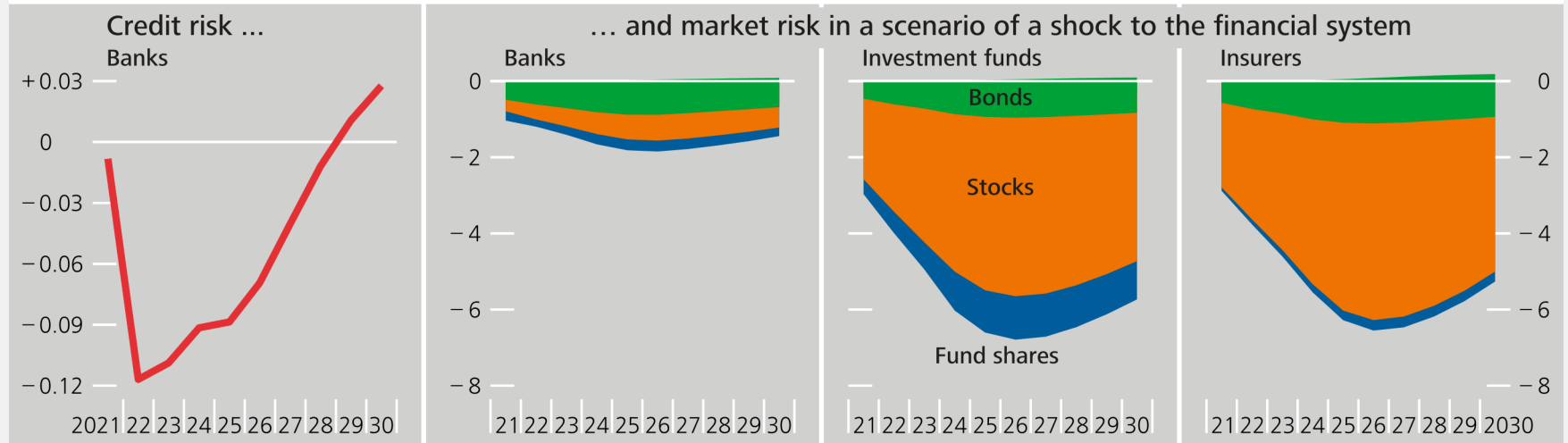


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However, the effect of these revaluations on the German financial system would probably be rather moderate.

Vulnerability of German financial intermediaries to climate-related transition risks

Cumulated changes in value as a percentage of the stressed portfolios



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