EUROPEAN CENTRAL BANK

EUROSYSTEM

Strengthening resilience and addressing vulnerabilities

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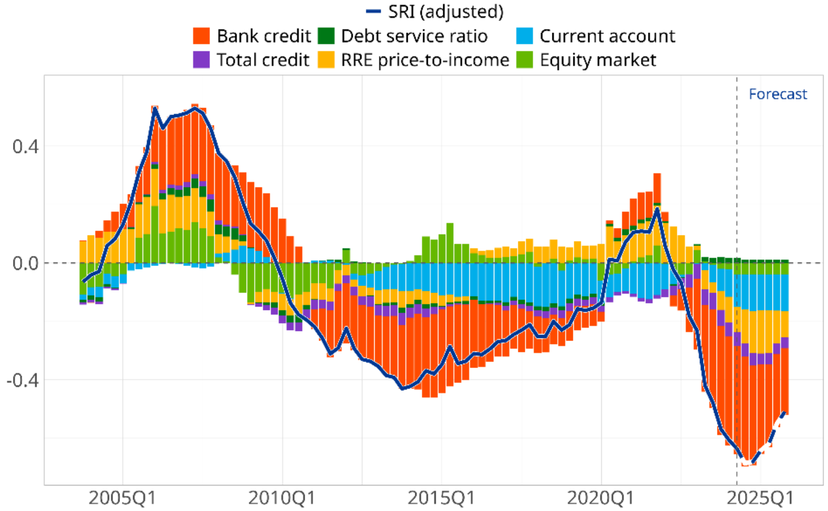
The decline of the financial cycle continues, but remains orderly so far

- *The financial cycle downturn driven by lower credit and RRE price dynamics. Expected to bottom out by end 2024. Systemic risk has not materialised.*
- *Downside risks to growth declining, as the financial cycle downturn has been orderly to date and a "soft-landing" scenario is more likely*

The Systemic Risk Indicator (SRI) continues to decline

Weighted average of z-scores of SRI sub-components

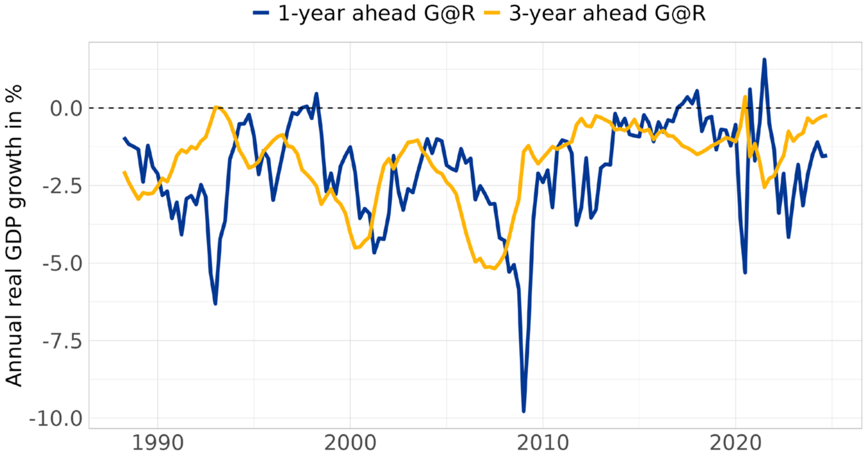


Latest observation (excluding forecast): 2024 Q2

Sources: ECB calculations based on Lang et al. (2019).

Euro area growth at risk

5th percentile of real GDP growth forecast distribution



Last observation: 2024 Q3

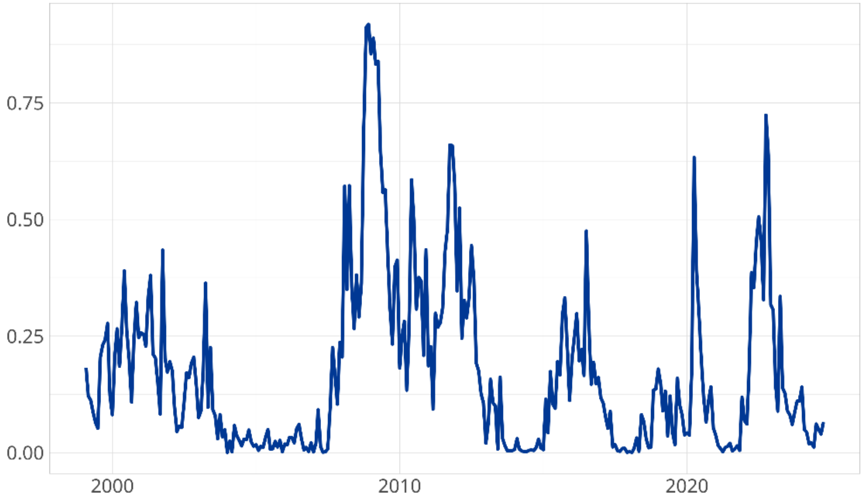
Source: ECB calculations based on Lang et al. (2023).

The decline of the financial cycle continues, but remains orderly so far

- *Contemporaneous financial stress indicators are at the low levels*
- *Financial crisis probabilities have declined from the recent peak but remain above signalling thresholds with increasing heterogeneity across countries*

Composite Indicator of Systemic Stress (CISS) for the euro area

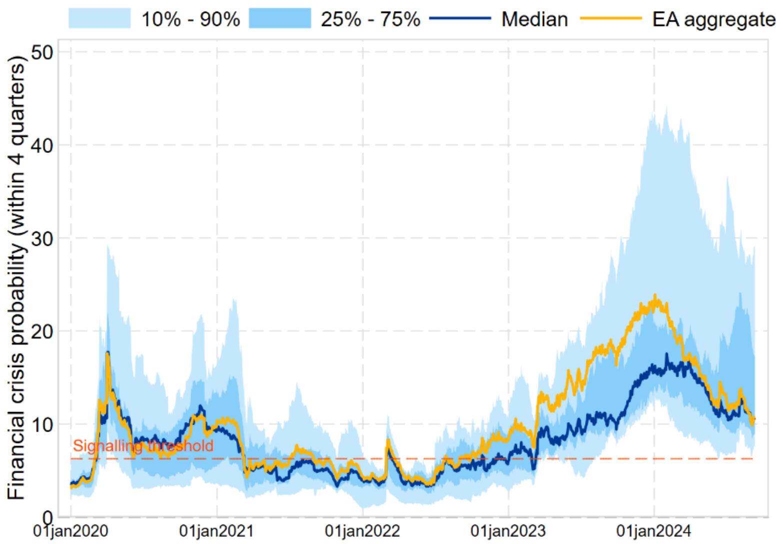
Jan. 1999 – Sep. 2024; index



Source: ECB.

One year ahead financial crisis probabilities across euro area countries

1. Jan 2019 - 11 Sep. 2024; percentages



Sources: ECB and ECB calculations.

Macroprudential policy stance in euro area countries

- **Preserving banking system resilience remains the key policy priority** given existing vulnerabilities. Buffer releases should be avoided, as there are no signs of bank losses or bank capital constraints

- **Increasing macroprudential space still desirable in some countries**, given low releasable capital buffers and favourable banking sector conditions that limit the risk of procyclical effects (comfortable capital headroom or/and high profits)

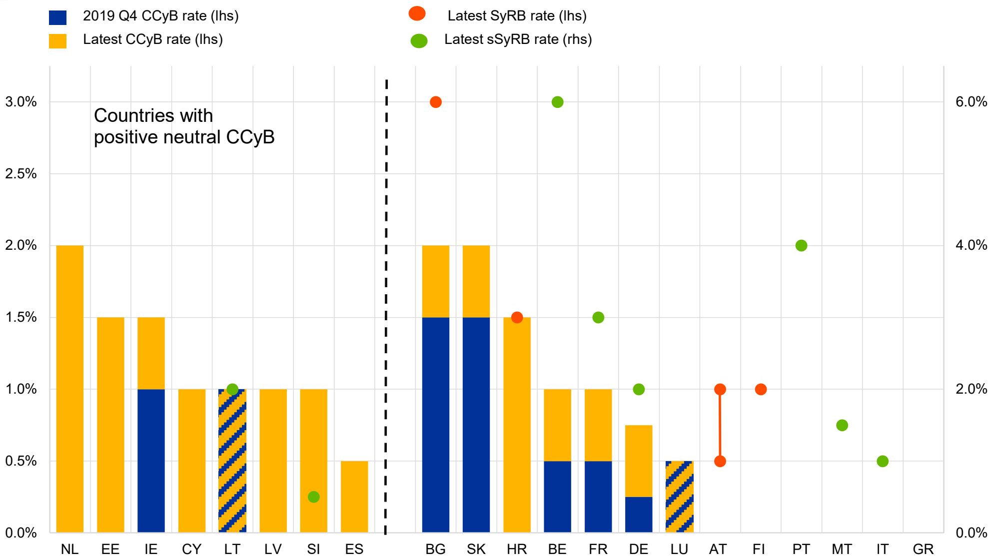
- **Existing BBMs should be maintained to preserve sound lending standards**. BBMs should still be activated or tightened in some countries as backstops

- In a statement published in July, the **Governing Council** called for **maintaining current capital buffer requirements and borrower-based measures** and **supported countries planning to increase capital buffer requirements**

Activated capital-based macroprudential measures in the SSM countries

- Banking union countries have been active on the macroprudential policy front since the pandemic
- 19 out of 21 SSM countries currently have capital measures in place, with 8 countries with a PNR for CCyB

Capital-based measures activated in the banking union countries



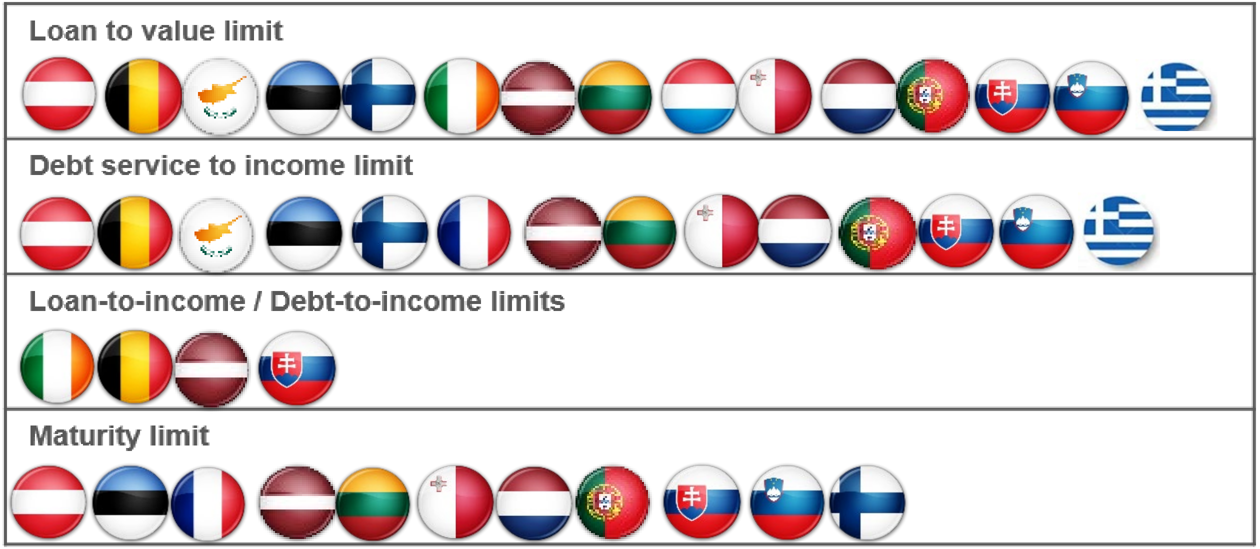
Source: ECB.

Notes: Does not include CCoB and O-SII buffers. The announced CCyB rate will become effective in 2024 for BE and SI, in 2025 for LV and ES, while for other countries it is already effective. SI has applied sectoral SyRBs of 0.5% to loans granted to households. In FR, a 3% sSyRB applies to material exposures to highly indebted French non-financial corporations. In AT, the SyRB rate is institution specific and varies between 0.5% and 1%. In IT, the 1% sSyRB applies to domestic credit and counterparty credit risk exposures and will be implemented in 2025. In all other countries, the sSyRB applies to exposures secured by RRE.

Activated borrower-based macroprudential measures in the SSM countries

- LTV and DSTI caps are the most common types of measures when it comes to BBMs
- 16 out of 21 SSM countries currently have BBMs in place

Borrower-based measures activated in the banking union countries



Source: ECB.

Key financial stability developments

1 Summer market turmoil illustrate vulnerabilities in markets amplified by NBFIs

2 Political risks bring closely linked vulnerabilities in sovereign, corporate, bank and NBFI sectors into focus

3 Commercial real estate markets show signs of stabilisation, but conditions could again worsen