

Financial Stability in Europe and Germany: Challenges Ahead

Panel on ECB Financial Stability Report

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SUERF, May 26, 2025



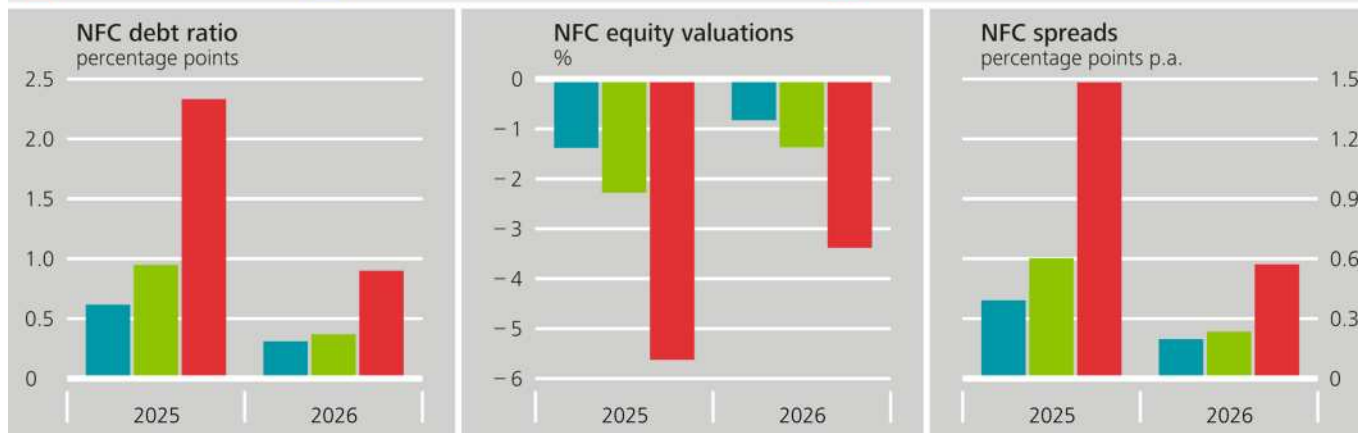


**Macro-financial environment remains
challenging in light of geopolitical
tensions and heightened uncertainty**

US tariffs and reciprocal EU measures lead to deterioration of financial indicators of EU non-financial corporations across scenarios

Effects of different “Trump scenarios” and of additional reciprocal EU tariffs on financial indicators of EU non-financial corporations (NFC)

■ “Trump scenario 10%” ■ “Trump scenario 10% and EU retaliation 10%” ■ “Trump scenario 25% and EU retaliation 25%”



Source: Bundesbank calculations based on the DSGE model “SIGMA” by the Federal Reserve (see Erceg, Guerrieri and Gust, 2006). * The “Trump scenarios” always comprise an unexpected permanent decline in the US labour supply by expulsion of 1.3 mn. migrants and a reduction in the corporate tax rate from 21 to 15% as well as in the income tax rate by 20%. “Trump scenario 10% [25%]” also includes an unexpected permanent increase of US tariffs on EU imports of 10% [25%]. “EU retaliation 10% [25%]” additionally includes reciprocal EU tariffs on all US imports of 10% [25%]. All shocks occur in the beginning of 2025.

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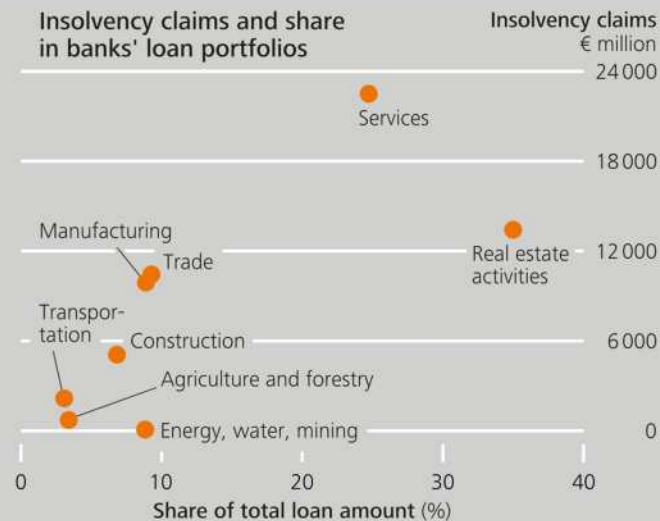
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Credit risk is rising

Business insolvencies have risen significantly, albeit from low level - Insolvency claims have increased considerably

Corporate insolvencies in Germany



Sources: Federal Statistical Office and Bundesbank calculations. **1** Total prospective insolvency claims of all creditors from January 2024 to February 2025. Bank loans as at December 2024.

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Banks have made significantly higher write-downs; Trend is likely to continue, especially in weak economic activity environment

Loss allowance ratio* in the German banking system

%, as at Q1 2025



* Loss allowance ratio measured by annualised addition to loss allowances in relation to the credit volume with enterprises and self-employed persons. **1** Unconditional forecast of the loss allowance ratio for Q2 2025 to Q1 2026. **2** Ifo business climate index (Industry and Trade) at 80 points on average. **3** Ifo business climate index (Industry and Trade) at 95 points on average.

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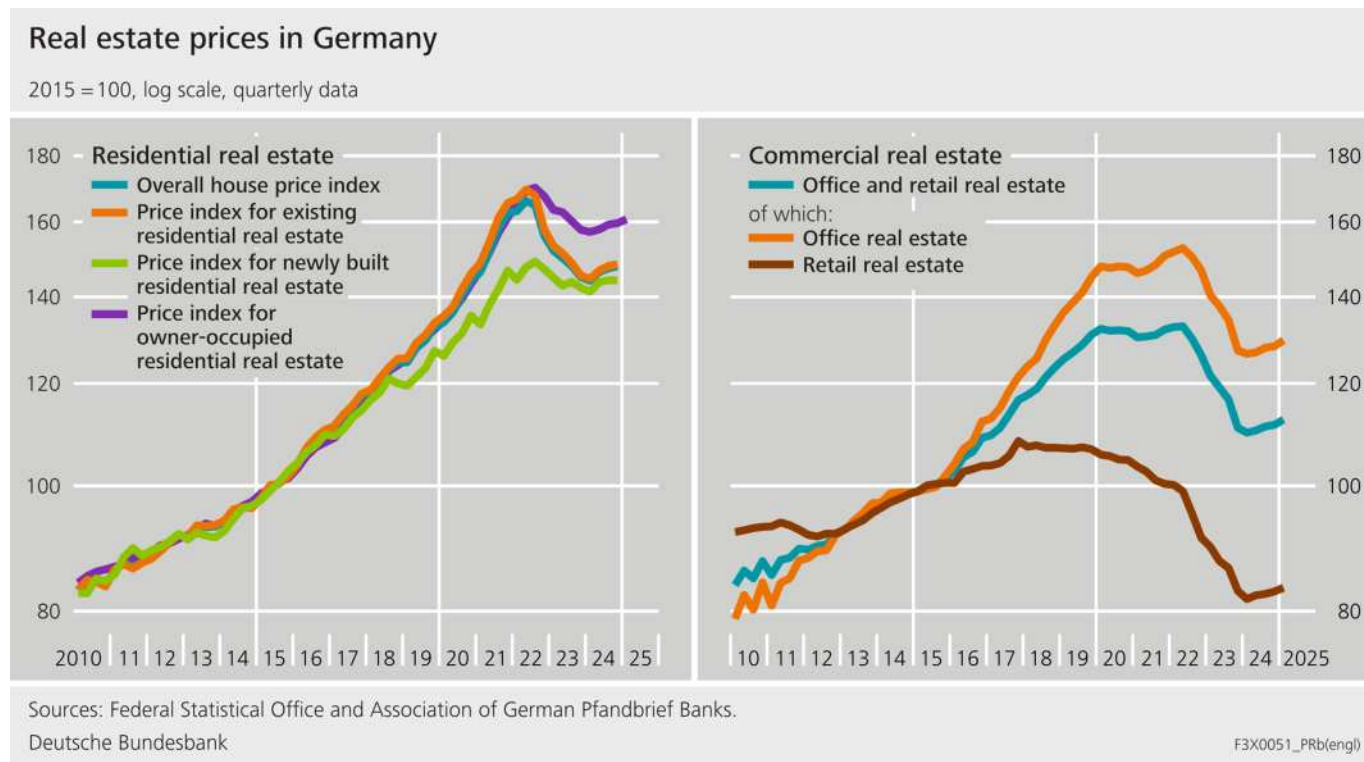


Asset valuations high – potential for asset price corrections

Challenges to residential real estate and commercial real estate sector differ

Residential real estate prices stabilising, commercial real estate prices stagnating, but downward risks high

-> Challenges and outlook are different



German open-ended public real estate funds have recently experienced net outflows - could exacerbate price declines in commercial real estate market.

Net asset value of German open-end real estate funds*

€ billion, as at April 2025



* Categorisation as retail real estate fund or specialised real estate fund based on Investment Funds Statistics.

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Financial stability challenges ahead: Outlook

- Financial system has maintained **notable degree of stability despite challenging macro-financial environment**
 - Possible adverse scenarios have significantly expanded given geopolitical risks, weak economic dynamics and structural change
- Currently: German package of **macroprudential measures remains appropriate**

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