



EUROPEAN CENTRAL BANK
EUROSYSTEM

Financial Stability Review November 2025

SUERF

27 November 2025

Directorate General Macprudential Policy and Financial Stability

John Fell



Financial stability vulnerabilities remain elevated, given uncertainty over geoeconomic trends and tariff impacts

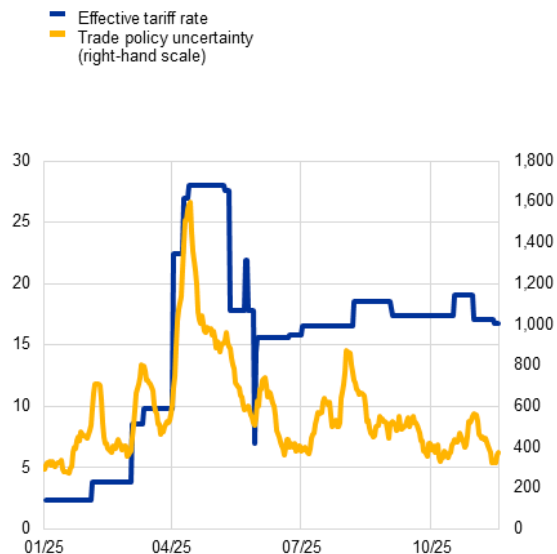
- 1 | High asset valuations carry the risk of sharp adjustments that could challenge and be amplified by non-banks
- 2 | A challenging fiscal outlook in some advanced economies could test investor confidence and lead to stress in sovereign bond markets
- 3 | Credit risk exposures to tariff-sensitive firms and growing funding risk exposures to non-banks could pose challenges for banks during periods of economic or market stress

Context: Trade policy uncertainty has eased but lingers

- Trade policy uncertainty has declined from its April highs, but renewed spikes cannot be ruled out
- Trade agreements resulted in lower than initially feared tariffs on euro area exports to the US; the full impact of the new elevated-tariff regime is yet to materialise

US effective tariff rate and global trade policy uncertainty

(1 Jan. 2025- 17 Nov. 2025, percentages, index)

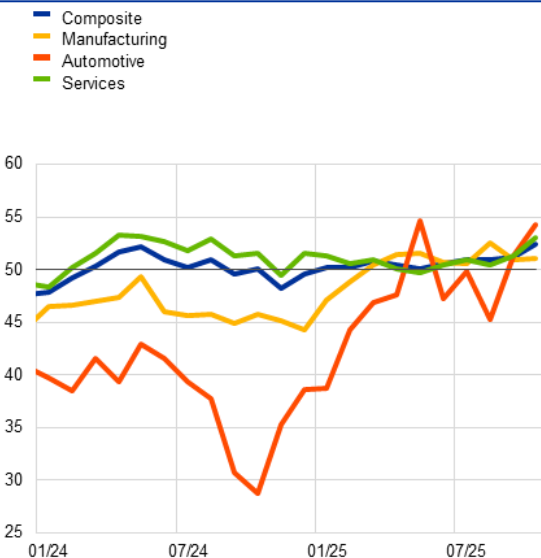


Sources: Yale Budget Lab and Caldara et al. (2020)

Note: The effective tariff rate for 2025 is measured pre-substitution, i.e. assuming there are no shifts in the import shares of different countries compared to 2024.

PMIs for economic activity in the euro area

(Jan. 2024-Oct. 2025, indices)

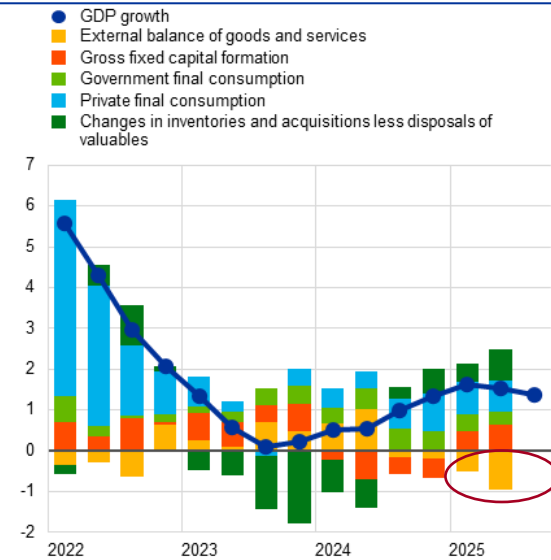


Source: S&P Global Market Intelligence.

Note: A Purchasing Managers' Index (PMI) value above (below) 50 implies an improvement (deterioration) in economic activity.

Euro area year-on-year real GDP growth

(Q1 2022-Q3 2025, percentages)



Sources: Eurostat and ECB.

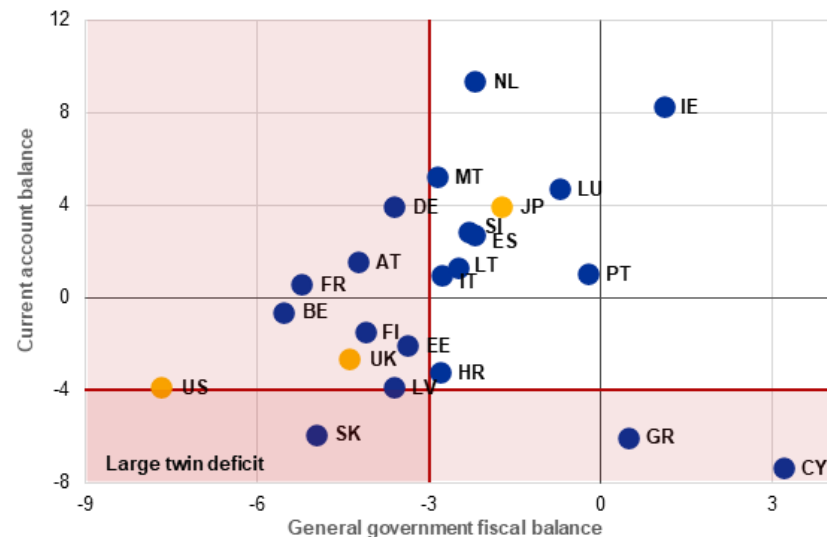
Note: The chart shows average annualised year-on-year GDP growth rates and average contributions from different components.

Context: Risk of adverse US spillovers beyond the trade sphere

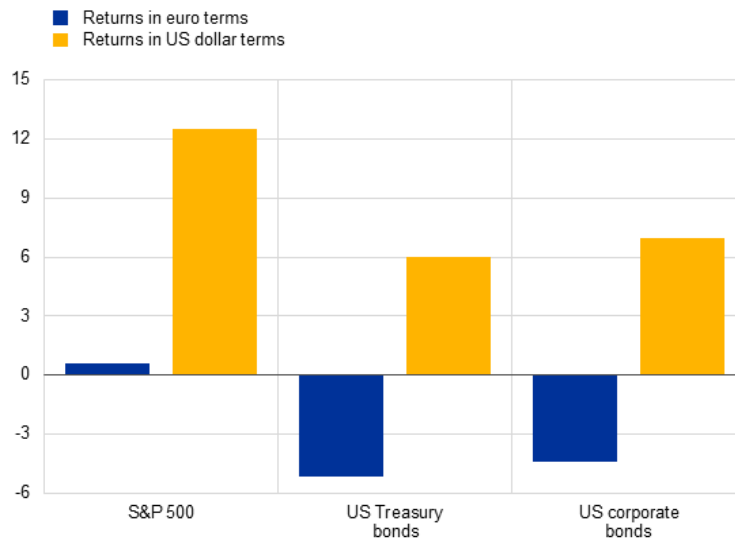
- Concerns about US sovereign debt sustainability and Fed independence have resulted in a weaker dollar and rendered the safe-haven properties of US Treasuries less certain

Current account and fiscal balances of Euro area countries and major advanced economies

(average values over 2025-27, percentages of GDP)



Returns on US benchmark assets, by currency of investment (1 Jan.-18 Nov. 2025, percentages)



Sources: European Commission and ECB calculations.

Notes: Balances are calculated as a three-year average of the forecasts for 2025, 2026, and 2027. The vertical red line marks the 3% of GDP budget deficit threshold set in the Maastricht Treaty. The horizontal red line shows the indicative threshold for the current account deficit from the European Commission's macroeconomic imbalance procedure scoreboard. Blue dots: EA countries, yellow dots: advanced peers.

Source: Bloomberg Finance L.P.

High asset valuations carry the risk of sharp adjustments

- *Fear of missing out, hard-to-price scenarios and AI exuberance have driven valuations higher*

Drawdown in EURO STOXX
(1 Jan. 2000-18 Nov. 2025, percentages)



Source: Bloomberg Finance L.P.
Note: Drawdown is defined as the cumulative loss since the last peak.

Evolution of crypto-assets and global equity markets
(1 Jan. 2024-18 Nov. 2025; indices: 1 Jan. 2024 = 100)

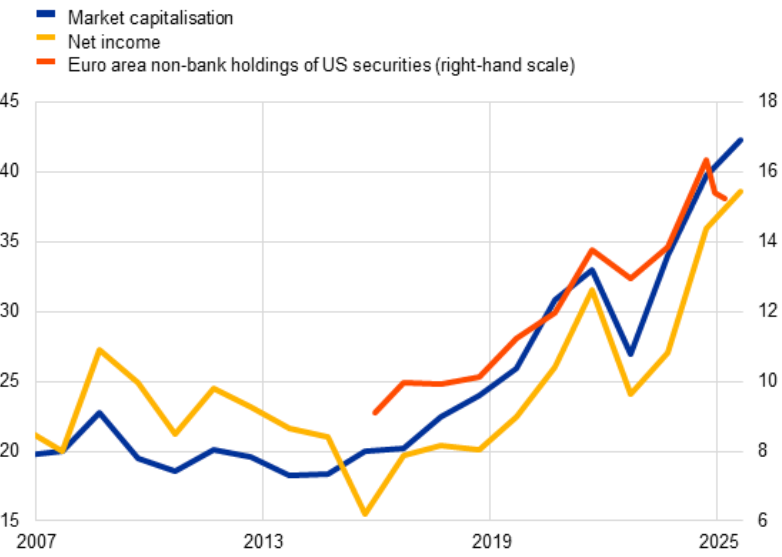


Source: Bloomberg Finance L.P.
Notes: "Crypto-assets" refers to the Bloomberg Galaxy Crypto Index, which is a benchmark designed to measure the price performance in US dollars of the largest cryptocurrencies. "Global equity markets" refers to the MSCI ACWI index, which measures the performance of large- and mid-cap stocks across both developed and emerging markets worldwide.

1 High asset valuations carry the risk of sharp adjustments

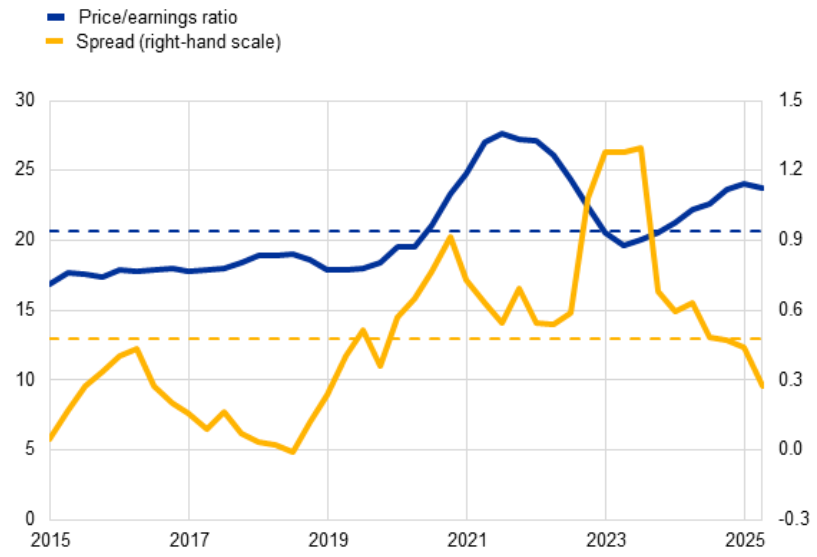
- *Sizable and concentrated NBFI holdings of US assets at elevated valuations expose them to higher-than-normal market risk, amplified by exchange rate risk*

Share of top ten S&P 500 firms in total market capitalisation and net income, and euro area non-banks' US exposures
(1 Jan. 2007-18 Nov. 2025, percentages)



Sources: ECB (SHS, ICB, IVF, PFBR) and Bloomberg Finance L.P.
Note: euro area non-bank holdings of US securities are shown as a share of total assets.

Weighted average equity price/earnings ratio and bond spreads in euro area non-bank portfolios
(Q1 2015-Q2 2025; ratio, percentage points)



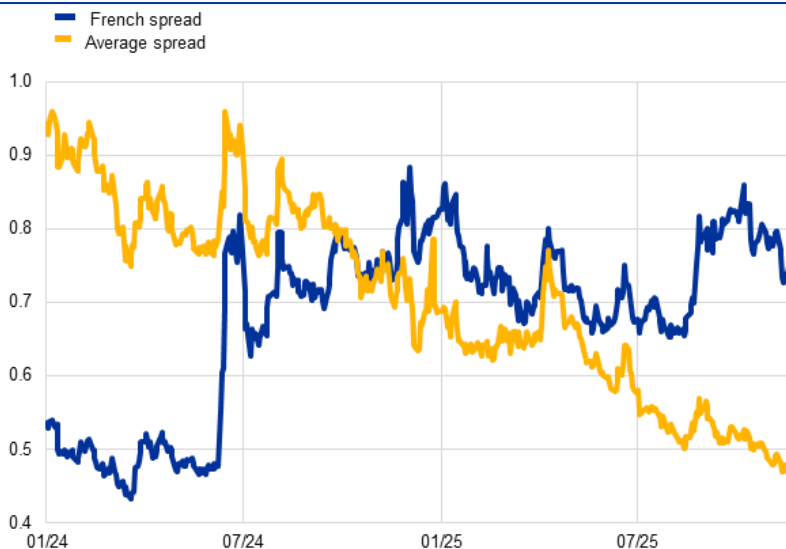
Sources: LSEG and ECB (SHS).
Notes: 12-month forward price/earnings ratio based on NBFI holdings within the S&P 500, EURO STOXX 600, Nikkei 225 and FTSE 100 indices, accounting for their changing compositions over time. The spread is the difference between an individual security's yield-to-maturity and a corresponding risk-free benchmark rate. The dashed lines show the long-term average price/earnings ratio and spread in NBFI portfolios.

Challenging fiscal outlook in some countries could test investor confidence

- *Sovereign bond spreads of most euro area countries have been converging, thanks to rating upgrades, receding downside risks to growth and flight-to-safety dynamics towards the euro area*
- *Additional and sizeable spending needs could weigh on euro area country budgets in the medium term.*

French spread and average of euro area sovereign spreads versus Germany

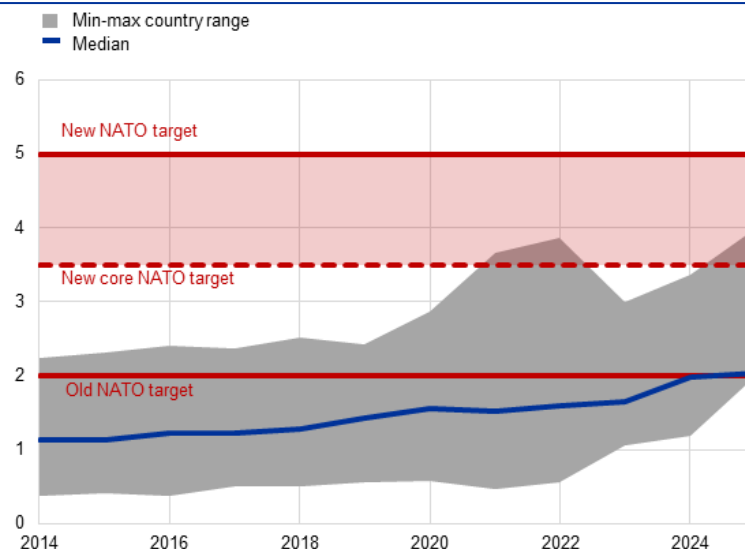
(1 Jan. 2024-18 Nov. 2025, percentage points)



Source: Bloomberg Finance L.P.

Notes: Average spread is the GDP-weighted average of the Belgian, Irish, Greek, Spanish, Italian, Dutch, Austrian, Portuguese and Finnish sovereign bond yields versus the German Bund yield. The spreads shown are for ten-year sovereign bonds.

Defence expenditure over time across EA NATO members (2014-25, percentages of GDP)



Sources: NATO and European Commission.

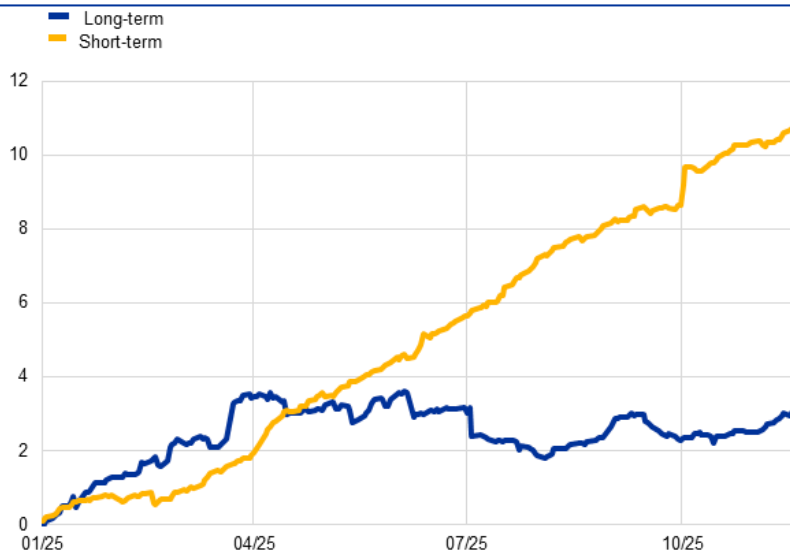
Notes: Data on defence expenditure come from NATO, with the figures for 2024 and 2025 being estimates. Data may differ from official euro area statistics because of differences in the way defence expenditure is classified.

2 Challenging fiscal outlook in some countries could test investor confidence

- *Smooth absorption of bond issuances so far, yet a shift is taking place toward a more interest rate-sensitive and volatile investor base, as demand for long-duration bonds recedes ...*
- *... weak fiscal fundamentals in some countries render them vulnerable to abrupt shifts in market sentiment*

Cumulative flows into funds investing in European bonds, by maturity

(2 Jan.-18 Nov. 2025, percentages total net assets)

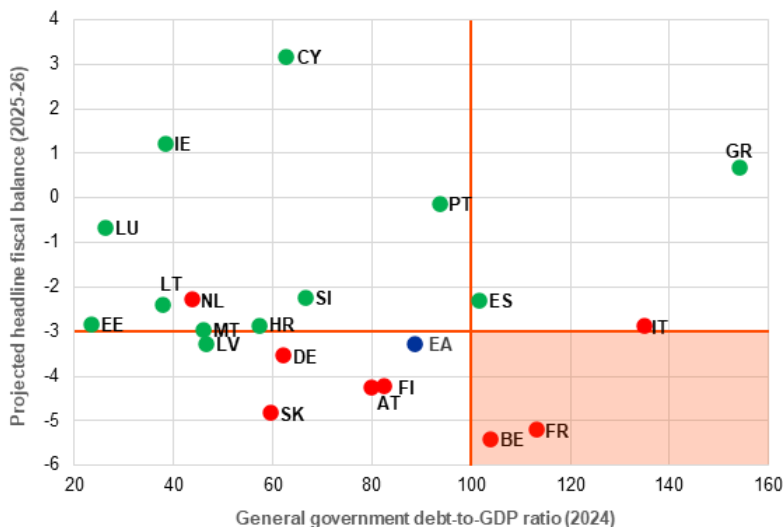


Source: EPFR Global.

Notes: Short-term bond funds invest in bonds with durations of between zero and four years. Long-term bond funds invest in bonds with durations of six years or more. A bond fund with duration of five years is classified as intermediate term.

Government indebtedness and projected average fiscal balance over 2025-26

(2024, 2025-26, percentages)



Sources: European Commission and ECB calculations.

Notes: Projected headline fiscal balance is calculated by taking the average of 2025 and 2026. The horizontal red line marks the 3% of GDP budget deficit threshold set in the Maastricht Treaty. The vertical red line marks the threshold of 100% of GDP for sovereign debt and is based on findings in the empirical literature. The green (red) dots indicate projected real GDP growth rates for 2026 above (below) the euro area average.

Credit risk in tariff-sensitive portfolios and funding risk due to growing bank-NBFI links

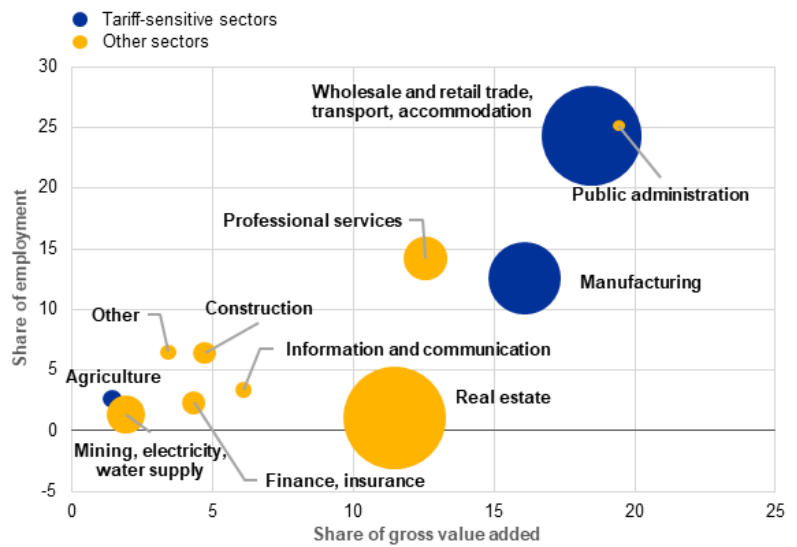
- *Export-oriented sectors under pressure from tariffs, euro strength and increased foreign competition*
- *Shocks affecting them could have wider repercussions, given their size and importance for employment*

Business bankruptcies in the euro area
(Q1 2015-Q3 2025, index: 2021 = 100)



Sources: Eurostat and ECB calculations.
Notes: The chart shows Eurostat's index of bankruptcy declarations, which is a weighted average of national indices, based on the absolute number of bankruptcies. The voluntary data collection before 2021 and national differences in bankruptcy laws imply a need for caution in interpreting the data.

Share in euro area employment, gross value added and credit, by sector and tariff sensitivity
(Q2 2025, percentages)

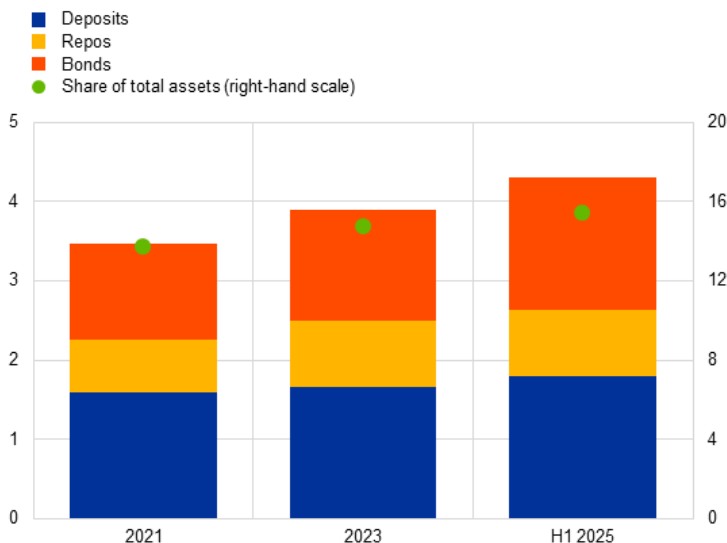


Source: Eurostat.
Note: Bubble size represents the share of total loans.

Credit risk in tariff-sensitive portfolios and funding risk due to growing bank-NBFI links

- Growing links with NBFIs make banks more vulnerable to volatile market conditions, especially a few larger banks which could face challenges sourcing substitute financing at times of stress*

Euro area banks' funding from non-banks, by instrument (2021, 2023, H1 2025; € trillions, percentages)

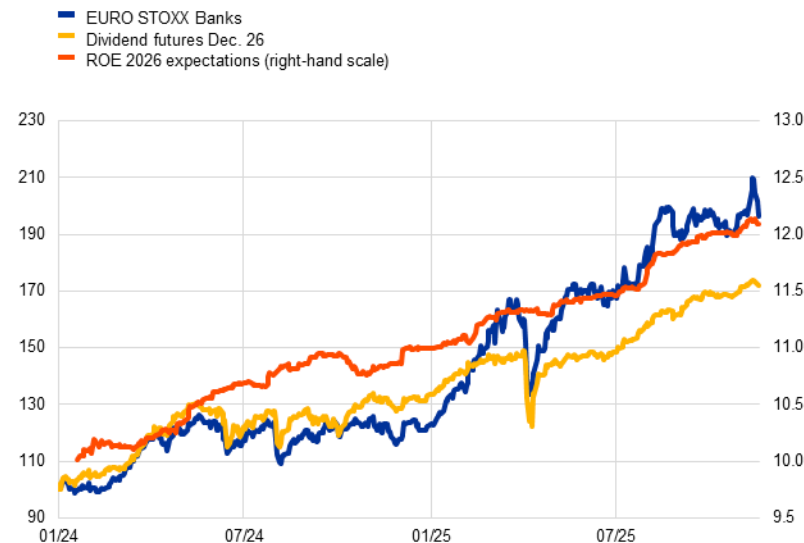


Source: ECB (SHS, supervisory data).

Notes: Non-banks comprise insurance corporations and pension funds, investment funds and money market mutual funds, and other financial institutions. Deposits and repos from non-banks are obtained from ECB supervisory data and are collected at the consolidated level. For data on bonds from non-banks obtained from the SHS dataset, all bonds issued by euro area significant institutions are aggregated at the consolidated level.

Euro area bank stock prices, dividend futures and profit expectations

(1 Jan. 2024-18 Nov. 2025, index: 1 January 2024 = 100, percentages)



Source: Bloomberg Finance L.P.

Note: ROE stands for return on equity.

Macroprudential policy considerations

Preserving resilience of banks and non-banks essential in an uncertain environment

For banks



Maintain macroprudential buffers, ensure releasability and usability

Keep policy agile and focused on financial stability

Simplify the supervisory and regulatory framework *without* compromising resilience

Support completing Basel III reforms and the banking union

For non-banks



Close data gaps and reduce data fragmentation to support risk assessment

Implement internationally agreed reforms, e.g. for MMFs and NBFIs leverage

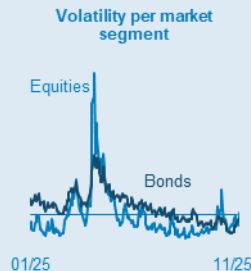
Broaden the macroprudential toolkit and enhance policy coordination at EU level

Advance swiftly with the savings and investments union (SIU)

Financial stability vulnerabilities remain elevated, given uncertainty over geoeconomic trends and tariff impacts

1

High asset valuations carry the risk of sharp adjustments that could challenge and be amplified by non-banks



- Current market pricing and subdued volatility seem out of sync with persistently elevated vulnerabilities and uncertainties.
- Stretched valuations and extreme market concentration, particularly in US technology and AI-related firms, heighten the risk of sharp repricing.
- Risks of adverse spillovers from US Treasury markets are high, given concerns about US fiscal fundamentals and the evolving role of the dollar in financial markets.
- Crypto markets continue to expand and show greater interconnectedness with the traditional financial system, with signs of rising speculative leverage.
- Structural liquidity and leverage fragilities in the non-bank financial sector, as well as opacity in private markets, could amplify market stress.

2

A challenging fiscal outlook in some advanced economies could test investor confidence and lead to stress in sovereign bond markets



- Need for increased defence spending and higher funding costs could further strain sovereigns with structurally high debt and deficits.
- Cyclical headwinds, together with structural challenges such as ageing populations, may complicate the path towards fiscal consolidation.
- Fiscal capacity to address any risks to economic growth might be limited by high public debt levels in some countries.
- Fiscal slippage or adverse spillovers from external fiscal shocks could lead to global repricing of sovereign risk, which could be amplified by leveraged trading strategies.
- Higher sovereign yields could spill over to the corporate and banking sectors via higher funding costs.

3

Credit risk exposures to tariff-sensitive firms and growing funding risk exposures to non-banks could pose challenges for banks during periods of economic or market stress



- Trade frictions coupled with weak cyclical conditions may translate into higher corporate insolvencies, especially in tariff-sensitive industries.
- Weaker than expected growth outturns and a deterioration in labour market conditions could erode some households' debt servicing capacity.
- Banks with high exposures to trade-sensitive industries could face worsening asset quality in the event of deteriorating corporate fundamentals.
- The ability of banks to absorb further asset quality deterioration is supported by robust profitability and ample capital and liquidity buffers.
- Strong linkages could cause any stress in the non-bank financial intermediation sector to spill over to euro area banks, especially via funding.

Special Feature A – What safe haven after the April tariff announcement? Implications for euro area financial stability

Box A – Market liquidity of euro area and US sovereign debt markets

Special Feature B – Systemic risks in linkages between banks and the non-bank financial sector

Chapter 1 – Box 1 – From localised shocks to systemic risks: the hidden threat of rolling recessions

Chapter 2 – Box 2 – The role of household investors in market downturns

Chapter 3 – Box 3 – US dollar activities of European banks: business models and financial stability risks

Chapter 4 – Box 4 – Procyclicality and leverage of euro area UCITS hedge funds: an unhealthy mix

Box 5 – Stablecoins on the rise: still small in the euro area, but spillover risks loom