Luis de Guindos: Financial stability in the euro area

Speech by Mr Luis de Guindos, Vice-President of the European Central Bank, at the Frankfurt Euro Finance Week, organised by the *dfv* Euro Finance Group, Frankfurt am Main, 17 November 2025.

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It is my great pleasure to join you once again at the Frankfurt Euro Finance Week, having taken part in every opening session since I joined the ECB. As always at this time of year, we are about to release our Financial Stability Review, so I will focus on our latest assessment of the risks to financial stability in the euro area.

A volatile and uncertain macro-financial outlook

After double-digit inflation figures in 2022 and a succeeding "bumpy road", inflation is now close to 2% and we expect it to continue converging towards our medium-term target. As in my remarks last November, we remain concerned about low growth, although we have seen an improvement in the overall macroeconomic environment compared with a year ago. Over the past 12 months, however, major shifts in US economic policy and in the multilateral rules-based trading system have been the key factors shaping economic and financial conditions. We have seen escalating trade tensions, which triggered the short-lived market turmoil in April this year. Trade policy uncertainty has eased thanks to the subsequent trade agreements between the United States and several of its main trading partners, and markets have shifted their focus somewhat from the risk of an immediate escalation in geopolitical tensions to the longer-term economic and financial effects of tariffs and trade frictions. Although uncertainty has partially abated in the second half of the year, it is now a defining feature of our times. While the risk of a large-scale trade war has been averted, adverse spillovers beyond the trade sphere have again brought financial stability risks to the fore.

Global financial conditions – notably driven by developments in US markets – could pose challenges to euro area financial stability in the form of disorderly currency swings, the resulting adverse effects on trade competitiveness and fluctuations and spillovers in funding costs for sovereigns, firms and banks. Moreover, the potential for policy shocks to disrupt the international order poses significant risks of geoeconomic and regulatory fragmentation across the globe, while ongoing geopolitical tensions make more frequent and impactful adverse tail events increasingly likely.

Our report focuses on three main sources of risk and vulnerability for euro area financial stability.

Key financial stability vulnerabilities

The first relates to financial markets, which remain vulnerable to sharp and correlated asset price adjustments. The renewed bullish sentiment since the rebound of global stock markets from their April lows has driven high valuations even higher. At the same time, market concentration among, and interconnection between, a handful of large US-based tech firms has risen further, leaving markets exposed to risks stemming from potential shocks to their AI-related business models. In addition, the apparent disconnect between the prevailing economic policy uncertainty and benign market pricing leaves the way open for abrupt shifts in sentiment. Should any sudden market drawdowns occur, the balance sheets of euro area non-bank financial intermediaries could come under pressure. Persistent liquidity vulnerabilities in open-ended funds and pockets of high leverage in hedge funds increase the risk of fire sales, which could amplify market stress.

The second vulnerability relates to the fiscal challenges faced by some of the world's advanced economies. In the euro area, some countries are still burdened by elevated debt levels, with high budget deficits expected to persist in the coming years. Also, budgets have to contend with multiple medium to long-term challenges, not least the need to substantially increase much-needed defence spending in light of the new NATO target. Thus, fiscal slippage and non-compliance with the new EU fiscal framework could yet test investor confidence, particularly in countries with more fragile political landscapes. On a global scale, fiscal fragilities in major advanced economies, including the United States, could heighten sovereign debt sustainability concerns, trigger stress in global benchmark bond markets and prompt a broader reassessment of sovereign risk both globally and in the euro area.

The third vulnerability relates to the corporate sector. Although euro area banks have demonstrated resilience to recent shocks, they may face a deterioration in credit quality and an increase in provisioning needs as the effects of tariffs ripple through the real economy. Trade frictions and the recent appreciation of the euro have compounded the pressure on the corporate sector stemming from subdued demand and elevated debt service burdens. Tariff-sensitive and export-oriented sectors, such as manufacturing, account for a large share of total value added, credit and employment. Shocks affecting these sectors can have broader repercussions. While the resilience of euro area banks is underpinned by strong profitability and ample capital and liquidity buffers, growing interlinkages between banks and non-banks could expose bank funding vulnerabilities in stressed market conditions.

Within the non-bank financial sector, let me focus on the rapidly expanding private markets which provide an increasingly important alternative funding source for firms, possibly the only source for some, while offering diversification benefits for investors. In the euro area, private markets have grown strongly and now total over €700 billion in assets. They remain small relative to the euro area banking sector, which has around €30 trillion in assets, and are also substantially smaller than their counterparts in North America.

However, adverse economic shocks could lead to rising corporate defaults, valuation corrections and losses for private funds and their investors. There are at least three reasons for these concerns. First, shocks may be exacerbated by multiple layers of leverage – at company, fund and investor level – or by liquidity mismatches for some open-ended private funds. Second, by their nature, private markets are not transparent. Opaque valuation practices raise concerns about the possibility of mispricing and delayed recognition of losses. Currently, there appear to be challenges in executing exits from private equity markets which may suggest a disconnect between book and market values. This has potential implications for investor confidence and financial stability. And third, private market players have growing financing and partnership links with banks and insurers, providing potential feedback channels to the broader financial system. For banks, risks could arise from direct or common lending exposures to these markets.

Given the still modest size of private markets in the euro area, the overall risks they present so far appear contained. However, let me recall a crucial lesson from the global financial crisis. Continued growth, coupled with the three elements just mentioned – leverage, opacity and complex interlinkages with other parts of the financial system – can be the key components in the mix that turns a localised shock into a systemic crisis.

Conclusion

Let me conclude. Overall, financial stability vulnerabilities remain elevated in view of uncertainty over geoeconomic trends and the ultimate impact of tariffs in a volatile international environment. Vulnerabilities centre around high valuations and concentration in financial markets, credit risk exposures to tariff-sensitive firms and sovereign risk in some major advanced economies. Against this backdrop, maintaining the resilience of banks and the broader financial system is crucial. This implies upholding the macroprudential measures for banks implemented in recent years. But it also includes a closer monitoring and strengthening the macroprudential framework for the non-bank sector. Improving data availability is particularly important in private markets. Last but not least, to support growth in the EU and strengthen its role in the world economy, while safeguarding the stability of its financial system, it will be essential to advance the savings and investments union by deepening equity markets, mobilising retail and institutional savings and enhancing integrated supervision.

Thank you for your attention.