

Report on risks and vulnerabilities in the EU financial system

DOCUMENT

DATE:

22 Sep 2020

The outbreak of the Coronavirus has brought huge social disruptions and unprecedented economic challenges, with inevitable impact on the EU financial sector. Valuation, liquidity, credit and solvency risks have increased across the board. While liquidity positions of EU banks remained relatively strong, the EU investment fund industry faced a significant deterioration of asset liquidity in some segments combined with substantial outflows from investors in selected asset classes. The pandemic has thus led to liquidity challenges in segments of the investment fund sector.

It has also further amplified profitability concerns for all financial sectors, and is expected to result in deteriorating asset quality in the EU banking sector. Moreover, the expected further prolonged low interest rate environment weighs on the profitability and solvency of financial institutions. EU institutions for occupational retirement provision (IORPs) are also impacted by the pandemic and the prolonged low interest rate environment, which could lead to significant drops in the cover and funding ratios.