



Press release

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ESRB publishes EU Non-bank Financial Intermediation Risk Monitor 2023

The European Systemic Risk Board (ESRB) has today published the EU Non-bank Financial Intermediation Risk Monitor 2023 (NBFi Monitor). This is the eighth edition in an annual series monitoring systemic risks and vulnerabilities associated with investment funds and other financial institutions. For the first time, this edition extends the monitoring universe to crypto-assets and associated intermediaries (namely stablecoins, centralised finance platforms and decentralised finance protocols) as they provide financial intermediation and can be exposed to the same vulnerabilities and financial risks as the traditional financial sector.

Financial stability risks increased overall in 2022, owing to rising geopolitical tensions, higher-than-expected inflation and tightening financial conditions. **Against this backdrop, the NBFi Monitor highlights three main risks and vulnerabilities.**

1. An economic slowdown and tightening financial conditions could increase credit risk. This is particularly relevant for investment funds exposed to low-rated bonds and loans, financial vehicle corporations engaged in securitisation and financial corporations engaged in lending. If credit risk were to materialise it could lead to losses, which in the case of investment funds could result in large outflows and liquidity strains.
2. Market liquidity risk could put further pressure on non-bank financial intermediaries engaged in liquidity transformation. Several indicators show that liquidity conditions in EU bond markets deteriorated in 2022. Alongside cyclical liquidity risk, the monitor also identifies persistent challenges related to structural changes in liquidity provision and demand. These structural changes are linked, for instance, to open-ended funds offering daily redemptions.
3. Excessive use of leverage could amplify liquidity and market risks, lead to contagion and magnify shocks to financial stability. This vulnerability affects the traditional non-bank entities discussed in the report as well as crypto intermediaries, since both use leverage and rely on collateral.

To help identify risk, the NBFi Monitor 2023 includes two special features.

1. The special feature on stress related to liability-driven investment (LDI) strategies provides insights into how risks associated with liquidity and leverage materialise. It investigates the extent to which EU-domiciled LDI funds were prepared for margin and collateral calls related to the rise in interest rates.
2. The second special feature focuses on vulnerabilities affecting crypto-assets and associated intermediaries that are similar to those among traditional non-bank financial intermediaries. It considers how the crypto ecosystem uses leverage and engages in credit intermediation, and liquidity and maturity transformation. It also examines its interconnectedness.

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