



Press release

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ESRB publishes report on a monitoring framework for systemic liquidity risks in financial system

- Report outlines a monitoring framework and proposes three composite indicators to capture systemic liquidity risks
- Monitoring framework expands scope of existing frameworks by including non-bank financial intermediaries and markets beyond sovereign bond markets, and measuring risk of contagion and amplification

The European Systemic Risk Board (ESRB) today published a [report](#) outlining a monitoring framework for systemic liquidity risks in the financial system. The framework focuses on two major dimensions of liquidity: funding liquidity and market liquidity.

Funding liquidity captures the ability of financial institutions to obtain funding, while market liquidity captures the ability of market participants to trade financial assets quickly and in large amounts without significant price changes. The framework also measures the risk of contagion and amplification, as localised liquidity shortages can result in system-wide stress across entities and markets, increasing in intensity if adverse feedback loops develop.

The three proposed composite indicators capture underlying vulnerabilities in the financial system that could potentially give rise to elevated liquidity stress. There is one indicator for funding liquidity risks, another for market liquidity risks and a third for contagion and amplification risks.

The monitoring framework expands the scope of existing frameworks¹ which until now have focused on banks and sovereign bond markets. It will now include non-bank financial intermediaries and

¹ As published by the European Central Bank in [2018](#) and [2023](#)

additional key markets. It also introduces a new measure to address the propensity for contagion and amplification within the financial system.

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