

Financial stability report

DECEMBER 2025



Overview

The French financial system remains resilient in the face of increased risk of domestic and external shocks. Trade agreements have reduced short-term trade policy uncertainty in the second half of 2025, resulting in an improved macroeconomic outlook compared to June 2025. Equity markets, particularly in the United States, are trading at historically high valuations, notably driven by optimistic forecasts for the earnings growth of artificial intelligence (AI) companies. However, uncertainties with regard to the soundness of this dynamic and fragilities in the credit market mean that risky assets are exposed to the possibility of a reversal. A market correction of this type could be disorderly, contagious and amplified by vulnerabilities identified in the non-bank financial sector. Worldwide, elevated public financing requirements are resulting in an increase in the supply of sovereign bonds and a rise in long-term rates. In France, the weakened fiscal trajectory continues to weigh on financing conditions. The overall situation of non-financial corporations is stabilising, but the sector remains exposed to the risk of a deterioration in the macroeconomic situation, even though the short-term outlook has improved compared with June 2025. Against this backdrop, banks and insurers remain resilient, with robust capital and liquidity levels.

This report was finalised on 31 December 2025 and therefore does not take into account subsequent events, particularly those relating to the United States' intervention in Venezuela at the beginning of January 2026 and its potential consequences for the evolution of geopolitical risks to global financial stability.

Persistently high fiscal deficits represent a risk to financial stability and could lead to a deterioration in financing conditions

Public debt levels worldwide are reaching record highs against a backdrop of elevated deficits in numerous advanced economies. Yield curves steepened sharply in 2025, with interest rates on very long maturities increasing across all advanced economies, especially in Japan and the UK. In addition to the uncertainties surrounding fiscal trajectories, rising long-term rates also reflect a shift in demand from long-term investors, such as pension funds. Any spikes in volatility on sovereign debt markets could be amplified in particular by the unwinding of leveraged positions financed via the repo market – strategies widely used by hedge funds that have rapidly expanded since 2022, particularly on US Treasuries. In the United States, threats against the independence of the Federal reserve, which could lead to a loss of confidence by investors and an increase in inflation expectations, contribute to volatility and the steepening of yield curves.

In France, the sovereign debt market remains highly liquid, but the lack of sufficient deficit reduction could weigh on financial stability. Greater financing requirements and higher interest rates are having a lasting impact on interest payments, reducing the fiscal leeway needed to respond to adverse shocks. Despite fiscal uncertainties, the French sovereign debt market remained broadly stable in 2025, in a context of converging yields across euro area countries. The French sovereign debt market continues to be deep and fully functional; demand remains strong on the primary market and liquidity on the secondary market has not receded. However, in the absence of a reduction in the budget deficit to 5% or less, the supporting factors underpinning French sovereign debt could erode, with the risk of deviation from the trajectory expected under the excessive deficit procedure and further downgrades by rating agencies. Such a scenario could lead to higher volatility and reduced liquidity in French sovereign debt, potentially amplified by procyclical actors such as hedge funds. The deterioration of financing conditions on sovereign debt could spill over to French banks and corporations, weighing not only on interest expenses but also on investment. As sovereign debt security issuance volumes will remain very high in the euro area in 2026, particularly in France and Germany, ensuring a sustainable debt trajectory is essential to maintaining good financing conditions for all economic actors.

There is heightened doubt in the markets around the valuations of certain risky assets, particularly those related to AI

Since the sharp correction triggered by the United States' announcement of tariff measures on 2 April 2025, valuations on risky asset markets have rebounded sharply to historically high levels. Equity market performance has mainly been driven by companies operating in the artificial intelligence (AI) sector in the United States. Credit risk premiums on corporate bonds remain compressed, despite loan defaults in the United States that have heightened attention to vulnerabilities in the market for credit to highly indebted companies. Contrary to the correlations typically observed during periods of risk appetite, the price of gold rose sharply to a record high at the end of 2025, suggesting that certain investors were seeking to diversify. At the same time, some international investors, whose US-dollar exposure had increased significantly since 2022, sought to hedge against currency risk, contributing to the US dollar's depreciation.

Doubts around the valuations of AI-sector companies heightened in the second half of 2025. The high valuations of US companies operating in the AI sector has intensified the concentration in equity market capitalisation, driving the technology sector's share of the main US stock market indices to record levels. While spikes in volatility in the second half of 2025 signalled market sensitivity to corporate earnings and macroeconomic indicators, a revision of the profitability outlook for technology stocks could spark a sudden market correction.

The French and European financial systems are closely interconnected with international markets and therefore exposed to potential shocks affecting the valuations of risky US assets. Contagion effects would transmit a sudden price correction on certain assets in the United States to European markets. These market movements could then be amplified by forced sales by financial intermediaries, particularly those involved in non-bank financial intermediation, which are highly exposed to leveraged positions and/or liquidity risk. It is essential that financial intermediaries factor the uncertainties associated with the international market environment into their risk management processes.

Crypto-asset markets remained highly volatile in 2025, as their links with traditional finance continued to grow. Total market capitalization fell by around 24% between late September and late December 2025. This decline, driven by economic and geopolitical uncertainties, was exacerbated by the unwinding of leveraged positions. It occurred in a context of increasing interconnections with traditional finance, notably through the expansion of Bitcoin-backed exchange-traded funds (ETFs) and publicly listed companies specializing in the accumulation of crypto-assets ("Bitcoin Treasuries companies"), which are exposed to high leverage and significant liquidity risk.

The boom in stablecoins continued in the second half of 2025. Holdings of US dollar-based stablecoins are growing steadily, rising from USD 120 billion at the end of November 2023 to USD 298 billion at the beginning of January 2026. By comparison, holdings of euro-based stablecoins are more modest, at EUR 581 million, mainly concentrated in two main euro-based stablecoins, authorised under the Markets in Crypto-Assets (MiCA) regulation. The main issuers of stablecoins are non-bank entities, exposed to the risk of flight-to-safety should uncertainties arise as to their ability to maintain parity with their reference currency. While US regulations (the Genius Act) are still being implemented, the pioneering European regulations (MiCA) will need to be adapted, notably to take into account the risks of regulatory arbitrage between issuer and investor jurisdictions.

Overall, the financial situation of non-financial participants has been stabilising, despite the most indebted sectors remaining vulnerable to a deterioration in the macroeconomic environment

French companies are benefiting from favourable financing conditions – with interest rates stabilising – but with mixed consequences for the evolution of their debt-related vulnerabilities. After declining since the end of 2023, the cost of new loans to non-financial corporations (NFCs) stabilised in the third quarter of 2025, albeit at a

level still higher than before the inflationary episode. The moderate recovery in corporate lending continues, while corporate debt issuance is growing more rapidly. The net debt of French NFCs relative to GDP has stayed broadly stable since 2021, but is still higher than the euro area average. Overall, the repayment capacity of French companies appears to have stabilised since 2024. Nevertheless, against a backdrop of significant uncertainty and with conspicuous disparities between sectors, companies remain exposed to the risk of weak domestic demand and evolving trade tensions.

The commercial real estate market is undergoing a fragile stabilisation. While the rise in interest rates had triggered a significant but orderly decline in the commercial real estate market, with falling prices and investment volumes, the outlook now appears more stable and investment volumes are up once again. However, the sector is highly exposed to international investor flows and its recovery is thus heavily dependent on the macroeconomic situation and tensions in international trade.

The residential real estate market continued to recover thanks to the stabilisation of interest rates. Housing loan production continued to rise and reached EUR 12.2 billion in August 2025, up 23% year-on-year. The interest rates on these new loans stabilised at 3.1% on average in August 2025. The risks associated with the residential real estate market remain limited, thanks notably to the rule instituted by the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability), which caps the debt-service-to-income ratio at 35% and the repayment period for new loans at 25 years in order to ensure that credit standards stay under control and that household debt remains sound and sustainable.

The robustness of the banking and insurance sectors is a resilience factor

French banks benefit from high levels of capital and liquidity, and their profitability is improving. Despite the increase in credit risk on NFC and household loan portfolios, the revenues of the six main French banking groups in the first nine months of 2025 were up, driven by income from market activities and a recovery in the net interest margin. The improvement in their profitability contributes to the robustness of French banks, which continue to report solvency and liquidity ratios well above regulatory thresholds. According to the bank stress tests conducted in 2025, these capital buffers would allow banks to absorb a severe macroeconomic shock. In an uncertain environment, these factors of resilience are critical to the smooth functioning of the economy.

Insurers also continue to boast a robust solvency position and benefited from exceptional life insurance inflows in 2025. The average solvency of insurers improved slightly in the first half of 2025 and continued to amply exceed regulatory requirements, while the underwriting profitability of life insurers improved. Net life insurance inflows hit a record high of EUR 33 billion in the first half of 2025, with income mainly directed towards unit-linked products.

Innovations in the non-bank intermediation sector and their interconnections with banks demand greater transparency and appropriate risk management

The recent and rapid growth of non-bank financial intermediaries (NBFIs) has gone hand-in-hand with an escalation in interconnections with the rest of the financial system. As a result, French banks' exposures to NBFIs have outpaced balance sheet growth since 2022, although their weight in the total assets of French banks remains moderate. This heightened exposure mainly concerns non-resident counterparties, with a particular increase in exposures to entities domiciled in the United States and offshore financial centres. Direct or indirect interconnections between financial system participants act as potential amplification vectors for market shocks, as several episodes of crisis have shown. In France, a first exercise to stress test the financial system as a whole, conducted jointly by the Banque de France, the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential

Supervision and Resolution Authority) and the *Autorité des marchés financiers* (AMF – Financial Markets Authority), was launched to gain a better understanding of the amplification mechanisms associated with these interconnections.

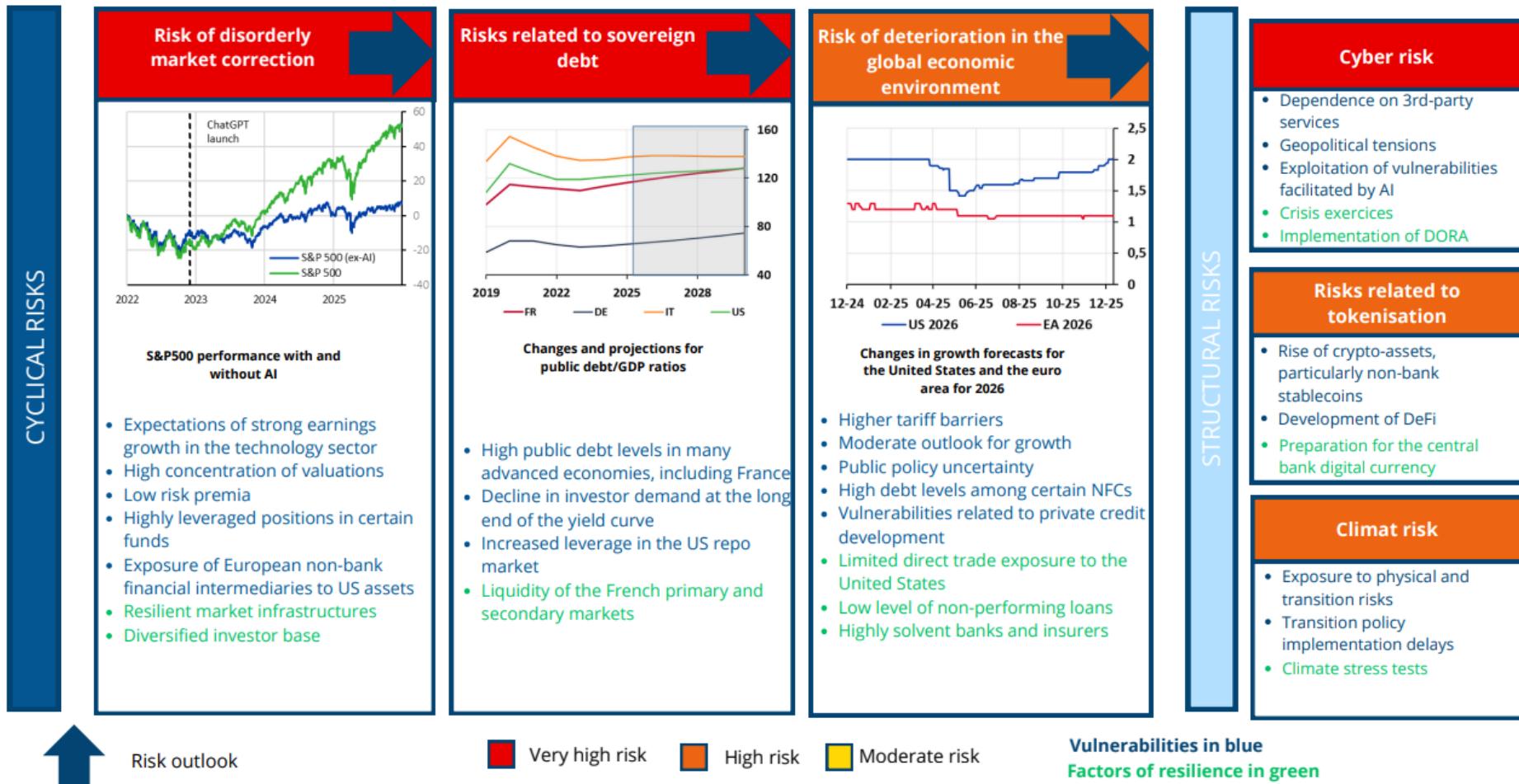
The consequences of the development of private credit for the financing of the economy and financial stability are assessed in a thematic chapter of this report. The rapid growth seen over the past decade in private-credit assets has been particularly striking in the United States, while in Europe the market remains relatively small despite picking up momentum. It is a relatively opaque market, which makes it even more difficult for authorities to assess its vulnerabilities. In addition to the credit risk inherent in this market, private credit funds are shifting from their traditional stance of rarely using leveraged positions and having little exposure to liquidity asymmetries: as the market has developed, so has the use of more complex financing structures and interconnections with the rest of the financial system, and the banking sector in particular. These developments, in tandem with increasing market concentration around large international managers, are likely to increase vulnerabilities and thus demand improved transparency.

Heightened geopolitical tensions are likely to exacerbate cyber and climate risks

Cyber threats continue to proliferate as the geopolitical environment deteriorates, but the entry into force of the Digital Operational Resilience Act (DORA) has boosted the resilience of financial institutions. Cyber risk is the main operational risk factor for the financial system, as dependence on information technologies, particularly external service providers, grows and cyber threats become increasingly sophisticated. Moreover, geopolitical tensions could lead to an upsurge in hybrid warfare operations on the European continent. DORA's entry into force on 17 January 2025 has allowed authorities to gain a better insight into incidents and should enable them to better assess these risks and further strengthen the sector's resilience.

The risks to financial stability associated with climate change and the degradation of nature require ongoing efforts from authorities and market participants. The first short-term climate scenarios published in April 2025 by the Network for Greening the Financial System (NGFS) highlight the economic consequences of extreme but plausible weather events. Their macroeconomic effects would bring down asset prices and push up credit risk, thereby impacting financial institutions. International mobilisation on issues related to climate risks and the degradation of nature is currently stalling at a time when it should be intensifying. It is more essential than ever to cooperate and share best practices in order to tackle these systemic risks to global financial stability.

ASSESSMENT OF RISKS TO THE FRENCH FINANCIAL SYSTEM | DEC. 2025



Risk outlook

Very high risk

High risk

Moderate risk

Vulnerabilities in blue
Factors of resilience in green

Measures taken by authorities

As the inflation trajectory's return to the European Central Bank (ECB) target of 2% over the medium term was confirmed, the Governing Council of the ECB left its key interest rates unchanged between June and December 2025. The ECB's key interest rates thus stand at 2% for the deposit facility, 2.15% for main refinancing operations and 2.40% for the marginal lending facility. The monetary authorities have reaffirmed that any future changes will be decided on a meeting-by-meeting basis, applying a data-dependent approach. Furthermore, the Governing Council maintained its strategy of gradually reducing its asset purchase programme and pandemic emergency purchase programme portfolios, which are contracting at a measured and predictable pace, with the Eurosystem halting the reinvestment of principal repayments on maturing securities in December 2024.

In France, the *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) continued to pursue a macroprudential policy aimed at preserving the resilience of the financial system. Following its meeting in December 2025, the HCSF highlighted the solidity of French financial players in an international environment that continues to be fraught with uncertainties and vulnerabilities.¹ The HCSF noted that credit to individuals continued to recover in France and that bank credit to non-financial corporations also continued to grow. In view of the economic and financial environment, the countercyclical capital buffer (CCyB) rate was maintained at 1%. With regard to the granting of residential real estate loans, the legally binding standard² for housing loans remained in force. This standard imposes a maximum debt-service-to-income ratio of 35% and a repayment period limited to 25 years (or 27 years in certain specific cases). Use of the flexibility margin available to banks under this measure stood at 16.8% in the third quarter of 2025, still below the 20% ceiling.

At the European level, the European Commission began implementing the first concrete measures provided under its strategy for the Savings and Investments Union (SIU). In June 2025, it adopted two proposals for regulations aimed at reviving the European Union securitisation market.³ On 30 September, it announced the introduction of a financial literacy strategy (a task entrusted to the Banque de France under French national law)⁴ and published a recommendation inviting Member States to establish a harmonised framework for savings and investment accounts, enabling European Union citizens to get the most out of their savings while increasing financing for businesses in the EU.⁵ With the same objective in mind, France, together with several European partners, had already introduced the “Finance Europe” label in June 2025,⁶ designed to help European savers improve the rate of return on their savings by channelling a significant proportion of their investments towards financing European businesses.

In addition, following a series of public consultations, the European Commission presented a set of new proposals for measures as part of the SIU. In particular, on 4 December, the Commission adopted a comprehensive package of measures designed to remove barriers and unlock the full potential of the EU single market for financial services (the “Market Integration Package”).⁷ It envisages a set of legislative measures on trading, post-trading and asset management aimed at eliminating barriers to cross-border transactions, reducing costs and simplifying rules. It also proposes to: (i) strengthen the supervision of the most significant market infrastructures by transferring by legislative proposal the direct supervision of significant CCPs and CSDs to the European Securities and Markets Authority (ESMA); and (ii) encourage the adoption of technological innovation

¹ [See the HCSF press release of 16 December 2025](#)

² [HCSF Decision 2021-7](#)

³ [Commission proposes measures to revive the EU securitisation framework](#)

⁴ [La stratégie nationale d'éducation économique, budgétaire et financière \(EDUCFI\) | Banque de France](#)

⁵ [Commission Recommendation of 30.6.2025 | Eur-lex.europa.eu](#)

⁶ [Financer l'économie européenne avec le label européen « Finance Europe » | French Ministry of the Economy](#)

⁷ [Commission launches major package to fully integrate EU financial markets | European Commission](#)

by facilitating market infrastructure use of distributed ledger technology (DLT). Its proposals must now be negotiated and approved by the European Parliament and the Council. At the same time, the Commission also carried out a public consultation on the creation of an optional corporate legal framework at the European level with the aim of reducing regulatory fragmentation between Member States, which has been identified as an impediment to competitiveness within the EU.

Furthermore, the European Commission implemented the principle of regulatory simplification by announcing the de-prioritisation of around 100 measures executing legislation that had already been adopted.⁸ The Commission specified that it will not adopt these non-essential acts before 1 October 2027. This pragmatic approach is consistent with the desire to rationalise the regulatory framework in line with the SIU's investment and administrative efficiency objectives, in accordance with the Commission's simplification agenda.

With regard more specifically to the simplification of the banking prudential regulatory framework, the European Banking Authority (EBA)⁹ and the ECB¹⁰ have published reports setting out the actions they have taken to streamline supervisory and reporting frameworks and making recommendations on prudential rules. These reports are designed to contribute to the European Commission's 2026 review of the banking package, based on the mandate provided for in the CRR3 Regulation. The measures already proposed or to be proposed by the European Commission, the EBA and the ECB are broadly in line with the levers for action identified by the Banque de France for the creation of a genuine Savings and Investments Union.¹¹ They should however be prioritized, in particular in favour of equity financing, and amplified with respect to simplification.

The European Parliament and the Council also pursued their efforts. Firstly, on 19 September, the Eurogroup announced that it had reached an agreement on the process of setting a digital euro holding limit, granting decision-making power to Member States,¹² and on 27 October, the Parliament's rapporteur presented the conclusions on the proposal for a regulation for the digital euro. Secondly, a political agreement was reached between the European Parliament and the Council on the CMDI¹³ package, aimed at reforming the European banking crisis management and deposit insurance framework to strengthen the resilience and stability of the European Union's financial system.¹⁴

At the international level, the Financial Stability Board (FSB) continued its efforts to improve the monitoring and regulation of risks associated with non-bank financial intermediation. Non-bank financial intermediation has become an essential component of the financial system and now accounts for more than 50% of global financial assets, according to the FSB's December 2025 report on the non-bank financial sector.¹⁵ In July 2025, the FSB published a report on the risks associated with leverage in non-bank financial intermediation (NBFI):¹⁶ the report puts forward recommendations aimed at providing authorities with a framework for identifying and monitoring vulnerabilities related to the use of leverage, strengthening the existing regulatory framework and improving access to and use of data relating to NBFI players.¹⁷

The FSB also continued its study of the impact of new technologies on global financial stability. In October 2025, the FSB published a report based on a thematic review¹⁸ of the implementation of its regulatory framework for

⁸ [De-prioritisation of Level 2 acts in financial services legislation](#)

⁹ [EBA Report, October 2025](#)

¹⁰ [ECB Report, December 2025](#)

¹¹ ["The Savings and Investments Union: \(Finally\) turning an idea into actions" | Banque de France](#)

¹² [Eurogroup - Consilium](#)

¹³ Crisis Management and Deposit Insurance.

¹⁴ [Commission welcomes the political agreement on the review of the bank crisis management and deposit insurance framework - Finance](#)

¹⁵ [FSB reports continued growth in nonbank financial intermediation in 2024 to \\$256.8 trillion - Financial Stability Board](#)

¹⁶ [Leverage in Nonbank Financial Intermediation: Final report](#)

¹⁷ [FSB Workplan to Address Nonbank Data Challenges](#)

¹⁸ [Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities](#)

crypto-assets and stablecoins, which highlighted the progress made but also pointed to persistent gaps between jurisdictions. The FSB called for a more consistent implementation of the global framework and stronger international cooperation. In another report published in October 2025,¹⁹ the FSB examined the challenges of artificial intelligence in terms of financial stability and proposed indicators to strengthen the monitoring approaches for the adoption of these technologies and their associated vulnerabilities.

Lastly, the FSB began an assessment of the implementation of the financial reforms decided since the 2008 crisis. In an interim report²⁰ presented to the G20 in October, the FSB highlighted a certain number of delays, particularly in the implementation of the Basel III Accords. It should be noted that the US authorities were not expected to finalise their Basel III implementation timetable until the beginning of 2026. In this context and with regard to the amendments to the market risk framework, which apply to activities subject to intense international competition, in June and July the European Commission²¹ and the Bank of England,²² respectively, postponed implementation to 2027 in Europe and 2028 in the United Kingdom for the internal model approach.

It should be noted that there has been a general slackening of international efforts dedicated to climate-related financial stability risks, with the notable exception of the informal NGFS network. In addition to the banking prudential framework, the US authorities have embarked on a programme of domestic reforms aimed at relaxing constraints on the financial sector. The gaps between the United States and the rest of the world on the broader financial issues related to climate change are widening: for example, the United States has decided to discontinue the working group dedicated to these issues as part of its G20 presidency in 2026, and has withdrawn its support for climate-related financial risk management principles for large financial institutions,²³ which could further fuel financial sector vulnerabilities and encourage regulatory arbitrage.

¹⁹ [Monitoring Adoption of Artificial Intelligence and Related Vulnerabilities in the Financial Sector](#)

²⁰ [G20 Implementation Monitoring Review Interim report](#)

²¹ [Commission proposes to postpone by one additional year the market risk prudential requirements under Basel III](#)

²² [CP17/25 – Basel 3.1: Adjustments to the market risk framework | Bank of England](#)

²³ [Agencies announce withdrawal of principles for climate-related financial risk management.](#)