

Financial Stability Report

DECEMBER 2025



CONTENTS

OVERVIEW	2
MEASURES TAKEN BY AUTHORITIES	7
1. CROSS-CUTTING ANALYSIS OF VULNERABILITIES	10
1.1 In an uncertain environment, fiscal trajectories, particularly in France, pose a risk to financing conditions	10
1.2 On the equity markets, uncertainty is growing around valuations, particularly with respect to artificial intelligence	19
1.3 The financial situation of businesses and the real-estate market is stabilising, despite the most indebted players remaining vulnerable to a deterioration in the macroeconomic environment	30
1.4 Banks and insurers remain resilient in an uncertain environment	39
1.5 New risks connected with tokenisation are emerging, while cyber threats persist	52
1.6 Climate risk continues to intensify and demands a coordinated response	57
2. RESHAPING THE CREDIT LANDSCAPE IN LIGHT OF PRIVATE DEBT GROWTH AND ITS IMPLICATIONS FOR FINANCIAL STABILITY	60
2.1. The private credit market has grown rapidly as banks have withdrawn from certain segments of activity	61
2.2. Proliferating interconnections with the banking and insurance sectors	68
2.3 The restructuring process is continuing	74
Conclusion	78
 Technical appendix: securitisation	 79

The French financial system stayed resilient to the increased risk of internal and external shocks. Trade agreements in the second half of 2025 reduced short-term trade policy uncertainty, 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 earnings growth among 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 turnaround. 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 needs are resulting in an increased supply of sovereign bonds and a rise in long-term rates. In France, the weakened state of the 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 own funds 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 returns on very long maturities increasing across all advanced economies, particularly Japan and the United Kingdom. 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 debt. In the United States, threats to the independence of the Federal Reserve, which could lead to a loss of investor confidence and heightened inflation expectations, are contributing to volatility and steepening 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 still appears strong on the primary market and liquidity is confirmed on the secondary market. However, in the absence of a reduction in the budget deficit to below 5%, 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. While 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 valuation 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 mechanisms.

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 specialising in the accumulation of crypto-assets ("Bitcoin Treasury 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-pegged stablecoins are more modest, at EUR 581 million, mainly concentrated in two main euro-pegged stablecoins, authorised under the Markets in Crypto-Assets (MiCA) regulation. The main issuers of stablecoins are non-bank players, 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 (MiCAR) 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 is 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 Gross Domestic Product (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 substantial but orderly downturn in the commercial real estate market, with falling prices and investment volumes, the outlook now appears more stable and investment volumes are up 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 is pursuing its recovery thanks to stabilising interest rates. Housing loan production continued to grow 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) capping the debt-service-to-income ratio at 35% and the credit period for new loans at 25 years, 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 factor of resilience

French banks benefit from high levels of own funds 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 that remain 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 continued 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 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 non-bank intermediation and their interconnections with banks call for greater transparency and adequate 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, an exploratory 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 carried out to gain a better understanding of the amplification mechanisms associated with these interconnections.

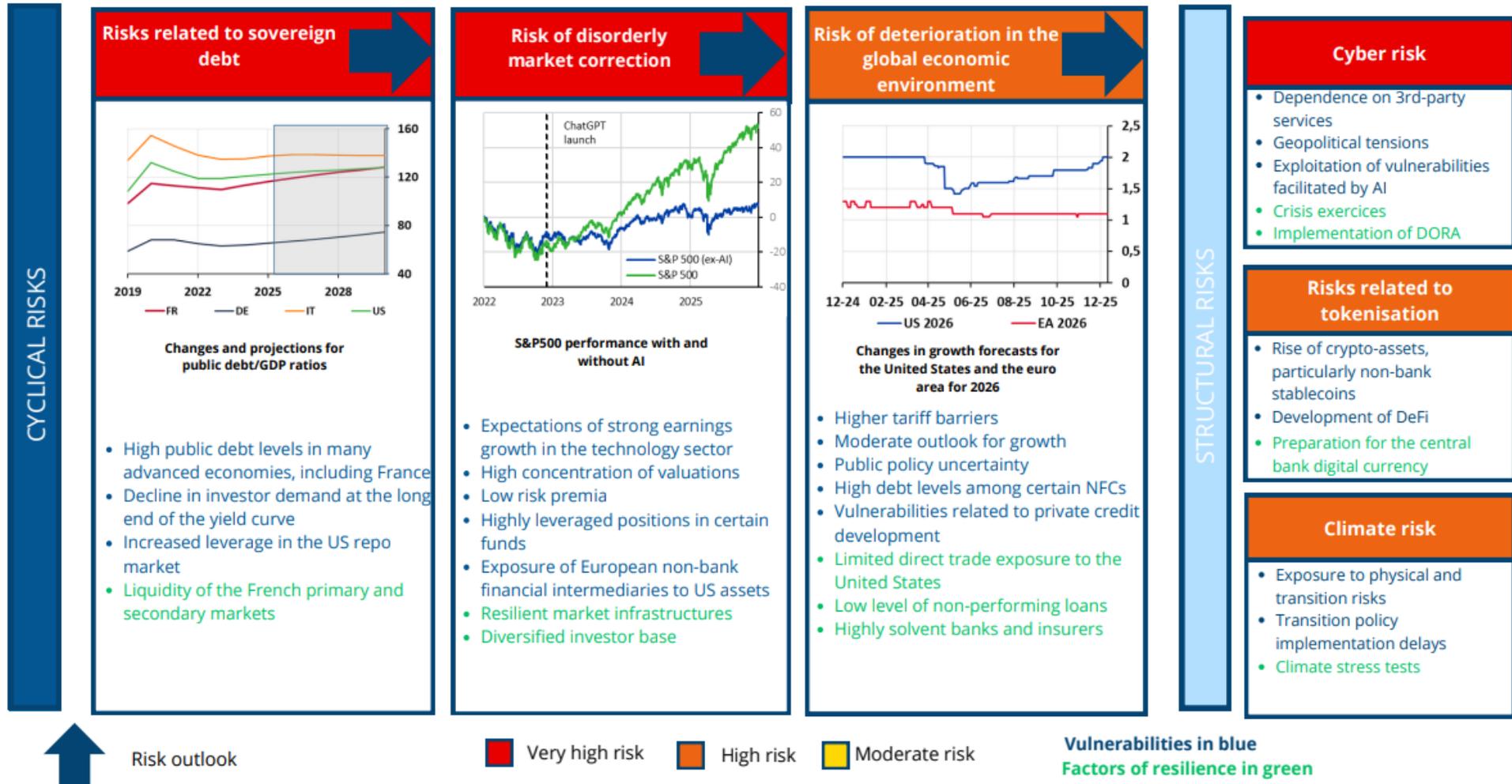
The consequences of the development of private credit for the financing of the economy and financial stability are assessed in a thematic chapter of this report. The rapid growth seen over the past decade in private-credit assets has been particularly striking in the United States, while in Europe the 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 mismatches: 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 grows, particularly on external service providers, 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 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 plausible but extreme weather events. Their macroeconomic effects would bring down asset prices and push up credit risk, and thereby impact 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



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 also 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, 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.⁶

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 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

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 » | Ministère de l'Économie](#)

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

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 each published a report setting out the actions they have taken to simplify the 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 prioritised levers for action identified by the Banque de France for the creation of a genuine Savings and Investments Union.¹¹ However, they must be prioritised, particularly in favour of own funds, and amplified to enhance 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 CMDI 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.¹³

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.¹⁴ In July 2025, the FSB published a report on the risks associated with leverage in non-bank financial intermediation (NBFi):¹⁵ the report proposes 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.¹⁶

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 review¹⁷ of the implementation of its regulatory framework for 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

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

⁹ [Rapport ABE, octobre 2025](#)

¹⁰ [ECB, Simplification of Regulation, Supervision, and Prudential Reporting Framework, December 2025; ECB, Streamlining Supervision, Safeguarding Resilience: The ECB's Agenda for More Effective, Efficient, and Risk-Based European Banking Supervision, December 2025.](#)

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

¹² [Eurogroup - Consilium](#)

¹³ [Commission welcomes the political agreement on the review of the bank crisis management and deposit insurance framework - Finance](#)

¹⁴ [FSB reports continued growth in nonbank financial intermediation in 2024 to \\$256.8 trillion - Financial Stability Board](#)

¹⁵ [Leverage in Nonbank Financial Intermediation: Final report](#)

¹⁶ [FSB Workplan to Address Nonbank Data Challenges](#)

¹⁷ [Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities](#)

framework and stronger international cooperation. In another report published in October 2025,¹⁸ 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 report¹⁹ 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 Commission²⁰ and the Bank of England,²¹ 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,²² which could further fuel financial sector vulnerabilities and encourage regulatory arbitrage.

¹⁸ [Monitoring Adoption of Artificial Intelligence and Related Vulnerabilities in the Financial Sector](#)

¹⁹ [G20 Implementation Monitoring Review Interim report](#)

²⁰ [Commission proposes to postpone by one additional year the market risk prudential requirements under Basel III](#)

²¹ [CP17/25 – Basel 3.1: Adjustments to the market risk framework | Bank of England](#)

²² [Agencies announce withdrawal of principles for climate-related financial risk management.](#)

1. Cross-cutting analysis of vulnerabilities

1.1 In an uncertain environment, fiscal trajectories, particularly in France, pose a risk to financing conditions

The macroeconomic environment appears resilient overall, but the growth outlook remains uncertain

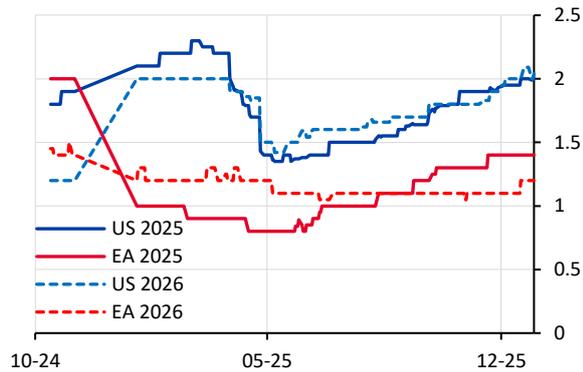
The French financial system is operating in an uncertain global environment and must come to terms with a moderate growth outlook. The uncertainty caused by the United States' unilateral tariff hike has only partially subsided following the conclusion of trade agreements in the summer of 2025 and is evident in the gradual reorganisation of international value chains and significantly higher trade barriers than at the beginning of 2025. In this context, the growth outlook remains subdued, although it has improved slightly compared with the peak in uncertainty observed in April 2025 (see Chart 1.1). In October 2025, the International Monetary Fund (IMF) raised its global growth forecast for 2025 from 2.8% in April to 3.2%. According to the Banque de France's December 2025 macroeconomic projections, French growth is expected to reach 0.9% in 2025, down from 1.1% in 2024. It should then increase moderately to 1% in 2026 and 2027, underpinned by stronger household consumption, a recovery in private investment and less uncertainty surrounding trade policies. The risks surrounding these growth forecasts are generally balanced, with recent upside surprises in economic activity possibly signalling the first signs of a faster rebound in private demand. Conversely, continued political and fiscal instability would be likely to reinforce the wait-and-see attitude of businesses and households.

Inflation's return to close to target in the euro area and in most advanced economies has enabled central banks to gradually ease their financing conditions. Rolling annual inflation in the euro area stood at 2% in December 2025, close to the level recorded in December 2024 and well below the peak of 10.6% reached in October 2022. Against this backdrop, the ECB cut its rates several times, the latest of which in June 2025 brought the deposit facility rate to 2% (see Chart 1.2). Inflation remains higher in the United States, but its decline since the peak in 2022, linked to the slowdown in employment, prompted the Federal Reserve to cut its funds rates by 175 basis points between September 2024 and December 2025. Furthermore, there are lingering concerns as to the extent of the US Federal Reserve's independence, which is essential to anchoring inflation expectations and ensuring the credibility of monetary policy decisions.

The geopolitical environment continues to be a source of shocks, with tensions remaining high in Ukraine, the Middle East, the South China Sea and the Caribbean. A potential escalation could affect supply chains and generate further uncertainty among economic agents and market operators. However, the relative easing of geopolitical tensions in the Middle East represents a factor of resilience for the financial system, while the concomitant decline in oil risk premiums has a disinflationary effect in a context of abundant supply.

Chart 1.1: Changes in growth forecasts for the United States and the euro area for 2025 and 2026

x: time/y: rate (%)



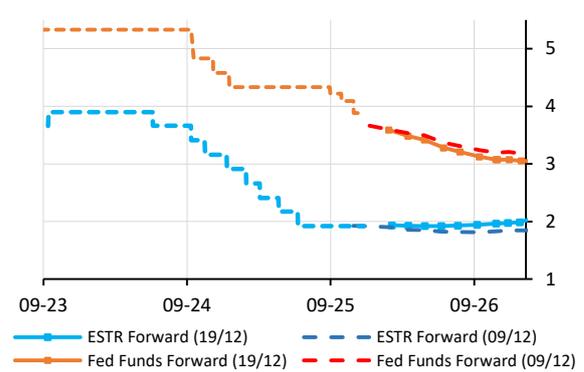
Source: Bloomberg.

Note: Bloomberg Consensus based on forecasts from a panel of analysts.

Most recent value: 31 December 2025.

Chart 1.2: Market expectations for key interest rates in the United States and the euro area

x: time/y: rate (%)



Sources: Bloomberg; Banque de France calculations.

Most recent value: 31 December 2025.

Persistent fiscal imbalances in the large advanced economies are likely to have an adverse effect on market conditions

Public debt levels worldwide are high and rising. The defence sector, the essential green transition and an ageing population are driving up financing requirements. According to IMF projections, global public debt should rise above 100% of GDP by 2029, its highest level since 1948. The proportion of government spending relative to GDP has doubled since the 1960s, reaching 42% in advanced economies in 2023.²³ Furthermore, the higher interest rate environment is contributing to an increase in interest payments on new bond issues. Governments are addressing these challenges by turning extensively to sovereign bond issuance, which is pushing up the level of supply on global bond markets. Should the current debt trajectory persist, it could test the market's absorption capacity and lead to a deterioration in governments' financing conditions.

The increase in governments' financing requirements comes at a time when demand factors on sovereign debt markets are changing. The end of quantitative easing policies and then the balance sheet reduction of the major central banks have mechanically strengthened the role of other – more price sensitive – market participants in absorbing the supply of sovereign bonds. In addition, certain structural drivers of demand for very long-term bonds are declining, particularly in the euro area with the decision in the Netherlands to reform pension funds, which until now have been among the main purchasers in these market segments (see Box 1.1). Some sovereign bond issuers are adjusting their debt strategy by reducing the proportion of long-term issues. At the same time, outstanding sovereign debt held by non-banks and financed by repo²⁴ debt is increasing, particularly in the United States, strengthening the connections between financing conditions in money markets and the smooth functioning of the sovereign bond market (see below).

The rise in very long-term sovereign bond yields during 2025 reflected the risks associated with the cost of debt financing. While short-term interest rates remained broadly stable in 2025 in the euro area and fell in the United States (the US two-year rate fell by 70 basis points), the spread between short and long-term rates widened during 2025, with yield curves steepening. This trend was particularly evident at the very long end of the yield curve, with an increase in the spread between 30-year and 10-year rates (up 45 basis points for German yields and up 55 basis points for US yields; see Chart 1.4). These dynamics correspond to an increase in the term premium (the additional return that investors demand for committing to hold long-term bonds instead of short-term investments), which market participants have associated with growing concerns about

²³ *Fiscal Monitor*, IMF, October 2025.

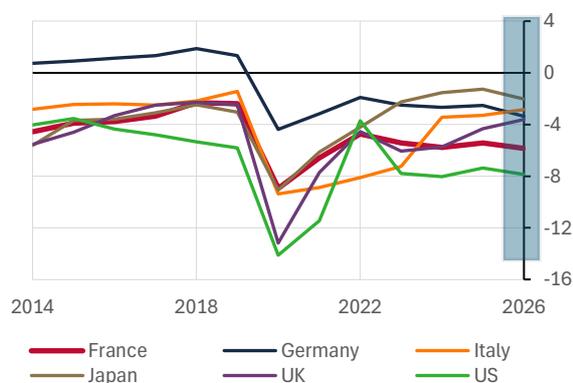
²⁴ Repurchase agreement.

public debt trajectories and the market's capacity to absorb issuance volumes. With the notable exception of Japan, the steepening of yield curves came to a stop in September, but renewed concerns about fiscal trajectories or an imbalance between supply and demand could once again trigger a widening of the spread between long-term and short-term rates. In the case of Japan, the steepening of the Japanese government bond yield curve resumed sharply in November 2025, particularly in the long segment, as market participants anticipated a series of fiscal stimulus measures. A development such as this would weigh on the financing conditions of all economic players, which regard sovereign rates as a benchmark.

European sovereign bond markets remain vulnerable to US economic policy uncertainties. Following the United States' tariff announcements in April 2025, the US Treasury market experienced an uncharacteristic moment of stress that was attributed to several factors (see Financial Stability Report, June 2025): potential asset reallocations by foreign investors; heightened volatility prompting the unwinding of leveraged positions; increased liquidity requirements due to margin calls; and a deterioration in the macroeconomic and fiscal outlook. In addition to trade and fiscal uncertainties, threats to the independence of the Federal Reserve may have affected investor confidence and fuelled inflation expectations, thereby contributing to the rise in long-term rates. Although the market quickly resumed its normal operating conditions, US policy uncertainty remains a major concern for market participants.²⁵ Even though the correlation between European and US sovereign rates has weakened since April 2025 compared to its historical average (see Section 1.2), a shock to the US Treasury market would have contagion effects on European markets, pushing up global interest rates and increasing market volatility.

Chart 1.3: Actual fiscal deficits and IMF projections

x: time/y: deficits (%)

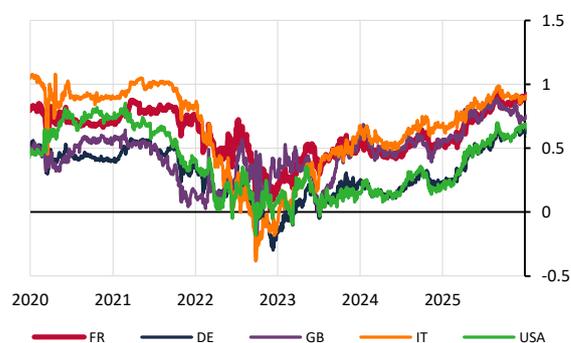


Source: IMF.

Note: Projections under a no policy change scenario.

Chart 1.4: Yield spread between 30-year and 10-year sovereign rates

x: time/y: yield spread (%)



Sources: Bloomberg; Banque de France calculations.

Most recent value: 31 December 2025.

²⁵ Political uncertainty was the most cited potential shock over the next 12 to 18 months according to market participants questioned by the US Federal Reserve; Financial Stability Report, Federal Reserve, November 2025.

Box 1.1: The Dutch pension fund reform

By Frédéric Guével

Pension funds are major players in the financial system, with an estimated USD 56 trillion in assets under management worldwide at the end of 2023 according to the Organisation for Economic Co-operation and Development (OECD), up more than 50% over 10 years. Dutch pension funds, which accounted for around EUR 1.9 trillion in assets at the end of 2024, are the largest in the euro area.²⁶

The Dutch pension system is currently transitioning from a defined benefit model, in which funds guarantee fixed future pension payments, to a defined contribution scheme, under which the financial risk is transferred to the employee. The reform aims to better manage the risks associated with interest rate fluctuations, inflation and longer life expectancy. Under a defined benefit model, funds bear the risk of guaranteeing fixed pension payments often over a very long period and sometimes in excess of 30 or 40 years. These liability commitments are extremely sensitive to interest rate fluctuations, with their discounted present value increasing as rates fall and decreasing as rates rise. In order to align the interest rate risk sensitivity of their assets with that of their liabilities, defined benefit pension funds invest massively in long-term bonds and rely on hedging instruments, particularly interest rate swaps.²⁷ Dutch pension funds held approximately 9% of French debt with maturities of 20 years and longer in the first quarter of 2025.

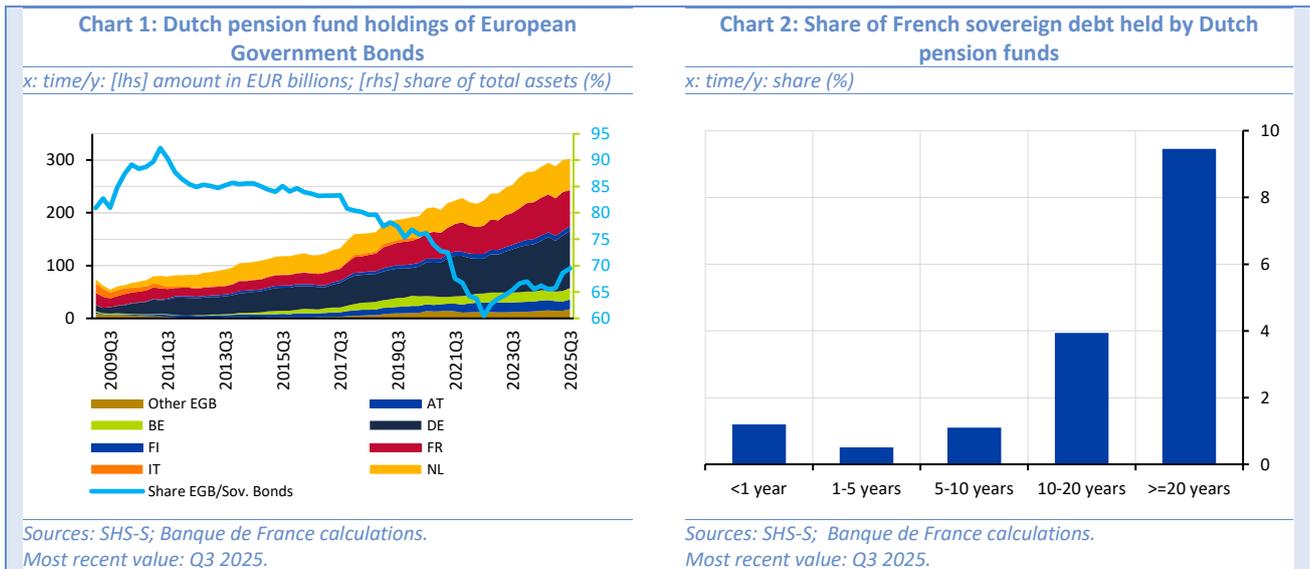
The reform could result in a lasting decline in demand for very long-term euro-denominated bonds and interest-rate derivatives. By transitioning to a defined contribution system, funds no longer need to so closely match their assets to their future liabilities, as those future liabilities are no longer guaranteed. As such, De Nederlandsche Bank, the Dutch central bank, estimates that funds will reduce their holdings in government bonds and interest rate swaps with maturities of 25 years and longer by around EUR 100 billion to EUR 150 billion (although the ultimate extent of these reallocations is currently difficult to predict as it will depend on the conditions and strategies implemented by each pension fund). By way of comparison, the total outstanding amount of government bonds with these maturities amounts to around EUR 900 billion and the net position in interest rate swaps is over EUR 300 billion.²⁸ The potential drop in demand could result in a steepening of the yield curve, with long-term rates (particularly in the 10 to 30-year segment) increasing relative to short-term rates. At the same time, the pension funds are likely to increase their exposure to equities and other risky assets.

The operational arrangements for the pension fund transition could entail risks to market conditions. The total volume of expected transactions represents more than one month of normal activity on the euro area interest rate swap market, which could lead to market tensions if the flows are concentrated. This transition will therefore be phased in over time, with a majority of funds planning to switch in early 2026 or early 2027. Once the transition is complete, pension funds will have 12 months to adjust their portfolios. Lastly, the conditions under which the market will absorb these flows will depend on the reaction of other participants: some hedge funds have already positioned themselves to profit from these trade movements, which may drive down long-term bond prices further, but also help to improve liquidity.

²⁶ The scale of pension funds is significantly lower in countries such as France and Germany, where pension plans mainly operate on a pay-as-you-go basis.

²⁷ Derivatives-based hedging strategies expose pension funds to liquidity risk linked to an increase in margin calls in the event of a rapid rise in interest rates.

²⁸ De Nederlandsche Bank (2025), "[New pension contract: implications for international interest rate markets](#)", 22 October.



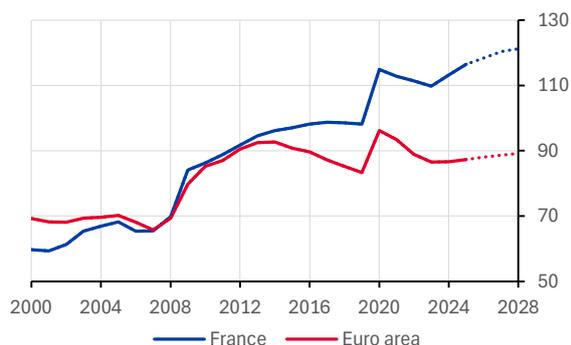
In France, fiscal uncertainty represents a risk to financial stability

In France, reducing the fiscal deficit is an essential step towards stabilising the debt trajectory. In 2025, the government deficit is expected to come in at -5.4% of GDP, as forecast in the Budget Act. This figure represents an improvement of 0.4 percentage point of GDP compared with 2024, but is still below the level needed to stabilise the debt ratio, estimated at -2.1%. This cut in the government deficit would mainly result from tax measures pushing up the rate of taxes and social security contributions (up 0.8 percentage point of GDP). According to Banque de France projections, finalised as at 3 December 2025 and based on the assumptions in the draft Budget Act and the draft Social Security Financing Act, the public deficit for 2026 is expected to have been reduced to a little under 5% of GDP. However, the Social Security Financing Act passed by the National Assembly provides for higher spending than proposed in the initial draft, and in the absence of a vote on the Budget Act, a special act rolling over the budgetary and fiscal provisions for 2025 was adopted. In these circumstances, it seems likely that the public deficit will turn out to be higher than the fiscal assumptions used. For 2027-28, the Banque de France uses a conventional assumption of a primary structural adjustment lower than that announced by the government, which is based on expenditure cuts that remain to be specified. In the absence of additional measures, the fiscal adjustment assumed in the Banque de France's scenario would be insufficient to stabilise debt as a percentage of GDP by 2028. This ratio is expected to increase over the entire projection horizon and stand at just over 120% of GDP in 2028 (see Chart 1.5). This would widen the gap with the euro area as a whole, where the debt ratio is expected to be close to 90% of GDP in 2028.

The French sovereign debt market remains broadly stable and fully functional despite geopolitical and fiscal uncertainties. Despite episodes of volatility linked to political uncertainty, the yield spread between French and German sovereign bonds narrowed slightly in 2025, in a favourable environment of risk appetite and yield convergence in the euro area. At the same time, risk premiums narrowed significantly in certain jurisdictions such as Italy and Spain, helped by improvements in their fiscal outlooks. As a result, the spread between French and Italian 10-year bond yields, for example, which still stood at more than 30 basis points in January 2025, had narrowed to almost zero at the end of December. French sovereign debt benefits from significant market depth and robust liquidity on the primary and secondary markets. The sovereign debt auctions held during 2025 saw historically high levels of demand, with a bid-to-cover ratio generally over three.

Chart 1.5: Public debt in France and the euro area

x: time/y: debt as a % of GDP



Sources: INSEE and Eurostat up to 2024. Blue-shaded area shows Banque de France and Eurosystem projections.

Note: The Banque de France's projections are based on strictly conventional adjustments, i.e. they only incorporate legislative measures that have already been enacted.

Chart 1.6: Change in 10-year sovereign bond spreads relative to France

x: time/y: spreads (%)



Source: London Stock Exchange Group (LSEG) Workspace; Banque de France calculations.

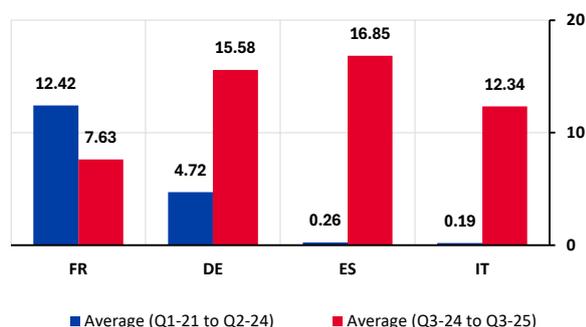
Most recent value: 31 December 2025.

However, the supporting factors underpinning French sovereign debt could be weakened if the public deficit is not reduced sufficiently. Above a deficit of 5%, public finances would enter a vulnerable territory, with increased risks of a sharp reversal in the sovereign debt market should a succession of negative signals unfold. First, France would deviate from the adjustment trajectory set out in the excessive deficit procedure. Second, the rating assigned to French sovereign debt would be at risk of further downgrades in the absence of effective progress. The effects of several ratings agencies downgrading France's sovereign rating in 2025 have been limited so far, but further downgrades could force certain investors to reduce their exposure to French sovereign debt. Lastly, a deterioration in the fiscal outlook could lead to increased volatility and a deterioration in the liquidity of French sovereign debt. These trends could be amplified by certain procyclical market players such as hedge funds. In a scenario such as this, the risk premium on French sovereign debt would increase, with a deterioration in financing conditions for banks, businesses and households, which would weigh on investment and increase the risks to public debt sustainability.

While the volume of European sovereign debt to be absorbed by investors will remain high in 2026, it is essential to preserve the conditions for the proper functioning of the French debt market. The implementation of the Eurosystem's quantitative tightening policy since 2022 has mechanically led to an increase in holdings by more price-sensitive investors, particularly French and other euro area banks. There has also been a resurgence since 2022 in the share of non-resident investors in French sovereign debt holdings, after it had declined until 2021 in the context of the ECB asset purchase programmes. Since 2024 and the heightened stress in the French sovereign bond market, non-resident investors have continued to build up their holdings of French government bonds, albeit at a slower pace than for other European Government Bonds (EGBs). Among these non-resident investors, hedge funds have been expanding their role on the secondary market since 2022, although it is difficult to estimate their share of total holdings. The balance between supply and demand on the European sovereign debt market will continue to evolve as financing requirements increase during 2026, driven by the French deficit, Germany's recovery and resilience plan and national defence spending requirements. Net EGB issuance is therefore expected to stabilise at a high level of around EUR 500 billion in 2026, equivalent to approximately 3.5% of GDP. Net French medium and long-term sovereign debt issuance was estimated at EUR 136 billion in 2026 based on the draft Budget Act,²⁹ a level close to that expected for German bonds.

Chart 1.7: Average quarterly pace of purchases of debt issued by public sectors by non-euro area investors

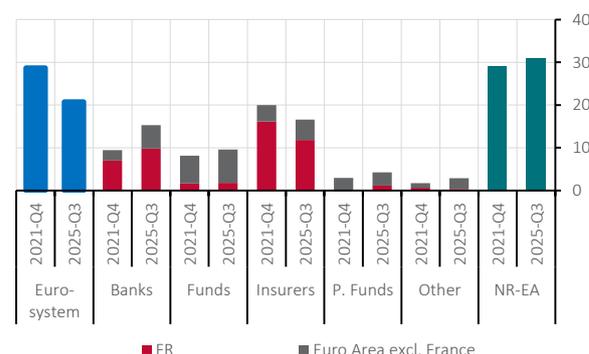
x: jurisdiction/y: amounts in EUR billions



Sources: Banque de France, SHS-S.
Most recent value: Q3 2025.

Chart 1.8: Changes in the investor base for French general government debt by investor type

x: time/y: outstanding debt (%)



Sources: Banque de France, SHS-S, Centralised Securities Database (CSDB).
Note: NR-EA = Non euro area non-residents.
Most recent value: Q3 2025.

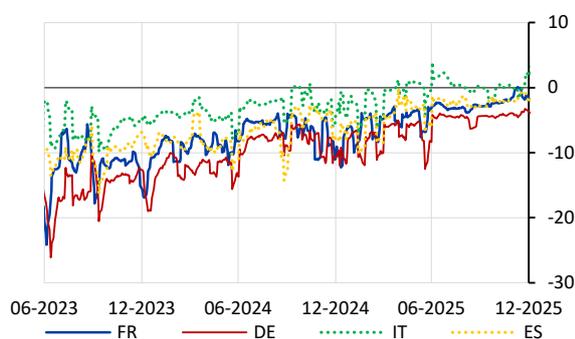
Stability in the repo market is crucial to the smooth functioning of sovereign bond markets

Since 2022, the repo markets in both the euro area and the United States have evolved along similar lines in response to quantitative tightening. In the euro area, the reduction in excess liquidity, the decrease in the Eurosystem's securities holdings and the increase in sovereign issuances have put an end to the phenomenon of collateral scarcity, which had been driving down repo rates.³⁰ At the end of October 2025, repo rates on French, Spanish and Italian collateral were roughly the same as the ECB's deposit facility rate (2%), while the rate on German collateral was slightly less (see Chart 1.9). With the reduction in excess liquidity, the repo market is thus reverting to its role as a financing market, with a larger share of transactions in which banks with excess liquidity lend to market participants in search of liquidity at rates above the ECB's deposit facility rate. This gradual rise in the repo rate is consistent with how the market is expected to operate in a context of reduced excess liquidity. In the United States, the overnight repo rate backed by US Treasury securities (SOFR – Secured Overnight Financing Rate) rose from September 2025 onwards, surpassing the Interest Rate on Reserve Balances (IORB) and even temporarily exceeding the Federal Reserve's Standing Repo Facility rate, which is supposed to cap rates on the repo market (see Chart 1.10). This development reflects a similar dynamic of structural decline in excess liquidity associated with quantitative tightening and an increase in sovereign bond issuance, accentuated by technical factors related to the economic situation (notably the temporary increase in the Federal Reserve's Treasury General Account during the US government shutdown). The announcement of the end of the Federal Reserve's quantitative tightening, starting in December 2025, helped to ease these pressures.

³⁰ During times of collateral scarcity and excess liquidity, the primary motivation for repo market participants is more to secure access to high-quality collateral than to obtain liquidity.

Chart 1.9: Spread between the French overnight repo rate and the deposit facility rate (DFR)

x: time/y: spread (basis points)



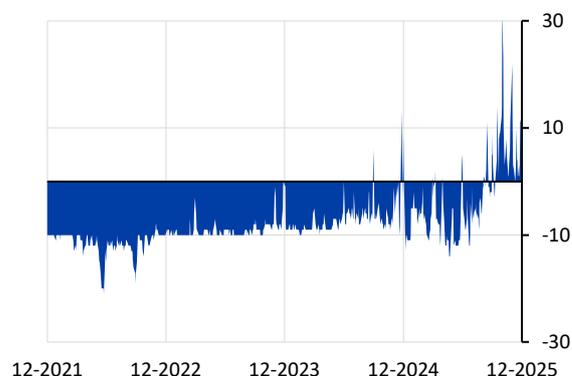
Sources: European Securities Financing Transactions Data Store (SFTDS), Banque de France.

Note: 10-day rolling average. General Collateral (GC) repo rate spreads relative to the DFR, weighted by volume.

Most recent value: 31 December 2025.

Chart 1.10: Spread between the overnight repo rate (SOFR) and the Federal Reserve's interest rate on reserve balances (IORB)

x: time/y: spread (basis points)



Source: US Federal Reserve.

Most recent value: 31 December 2025.

The repo market plays an important role in the functioning of the sovereign bond market. It allows market participants to lend or borrow sovereign bonds in exchange for financing and thereby contributes to liquidity and price formation in the secondary market. The main players in the market are banks and brokers, which act as intermediaries between parties seeking to lend (e.g. money market funds) and borrow (e.g. investment funds) liquidity.

Hedge funds in particular have a growing presence in the repo market, allowing them to finance leveraged positions in sovereign debt markets. The US authorities found that Cayman-domiciled hedge funds increased their holdings of US Treasury securities by USD 1 trillion between 2022 and 2024 – the equivalent of 37% of net issuance over the period.³¹ These funds notably implement relative value trading strategies aimed at exploiting valuation differences between sovereign securities and corresponding interest-rate derivatives (basis trades). These strategies are based on repo-financed government bond purchases and covered by hedging positions on the derivatives markets, thereby neutralising the exposure to interest rate movements, while generating significant leverage (see Box 1.2 of the [Financial Stability Report](#), June 2025). Their role in the repo market would appear to be critical: in autumn 2025, according to Office of Financial Research (OFR) data, hedge funds borrowed around USD 3 trillion in liquidity through repo transactions, against roughly USD 1.3 trillion in loans, all collateral combined.³² Hedge funds' share in European sovereign debt markets continues to be difficult to estimate based on the data available to European authorities, as these funds are generally domiciled outside Europe, particularly in the Cayman Islands. However, analyses of their repo positions suggest that their presence is growing but is still more limited than in the US market. The volume of euro-denominated repos carried out by hedge funds with a European counterparty doubled between 2023 and 2025. Hedge funds have become net borrowers in repos backed by European Government Bonds (EGB), amounting to around EUR 80 billion,³³ including EUR 25 billion backed by French Treasury bonds (OAT – *obligations assimilables du Trésor*; see Chart 1.11). The strategies implemented by hedge funds on the

³¹ Barth (D.) et al. (2025), "The cross-border trail of the treasury basis trade", *FEDS Notes*, US Federal Reserve, 15 October.

³² Office of Financial Research, "SEC Form PF". On this subject, see also: Banegas (A.) and Monin (P.) (2023), "Hedge fund treasury exposures, repo, and margining", *FEDS Notes*, US Federal Reserves, 8 September, in which the authors estimate that, at the end of 2022, hedge funds had approximately USD 553 billion in repo borrowing collateralised by US Treasury securities, representing nearly 45% of their total outstanding liquidity loans under repurchase agreements at the time, all collateral combined.

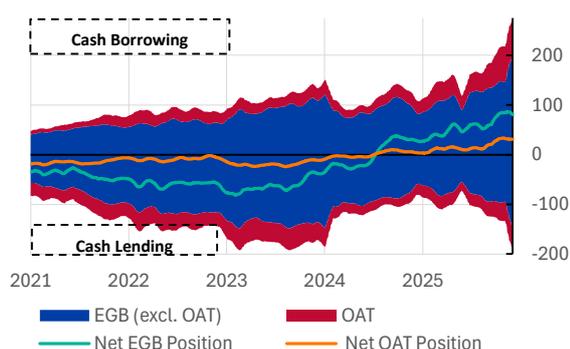
³³ On this subject, see also the ECB's estimates: [Tracing the growing role of hedge funds](#)

European market appear to be more diversified than in the United States, often focusing on the auction cycle³⁴ or relative value trading strategies between government bonds.

Intermediation in sovereign debt lending/borrowing positions is highly concentrated. Hedge fund financing on the repo market is provided by a small group of systemic banks, which creates a risk that substitutes may not be available should any of these players withdraw. In Europe, five banks provide 79% of total financing to hedge funds. Furthermore, euro area banks' exposure to hedge funds via repo transactions remains concentrated among a limited number of participants: the three largest hedge fund borrowers account for an average of 43% of total outstandings. The majority of repo transactions involving hedge funds do not go through a clearing house. A zero-haircut is most often applied to the value of sovereign bonds in non-centrally cleared repo transactions (see Chart 1.12), whereas a haircut of around 2% is applied for cleared transactions. Haircuts protect lending banks from counterparty risk and curtail the level of leverage that hedge funds can achieve. Market participants attribute low haircuts to the practice of calculating protection margins for exposures between a bank and a fund at overall portfolio level: collateral is provided to cover the net exposure of a portfolio, rather than each individual repo transaction. However, the Bank for International Settlements (BIS) finds that taking these portfolio-level margining practices into account does not alter the finding that haircuts in the market for repos collateralised by sovereign bonds are small.³⁵

Chart 1.11: Hedge fund repo outstandings backed by euro area sovereign debt

x: time/y: amount (EUR billions)



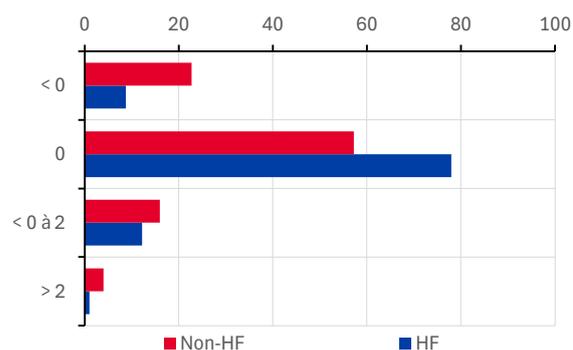
Sources: SFTDS, LSEG Lipper database, ECB; Banque de France calculations.

Note: 20-day rolling average. The transactions in question involve at least one entity subject to Securities Financing Transaction Regulation (SFTR) reporting. Hedge funds are identified using the Lipper and ECB databases, including funds domiciled in the Cayman Islands, Bermuda and the British Virgin Islands.

Most recent value: 31 December 2025.

Chart 1.12: Haircuts on non-cleared French debt repos

x: repo transactions (%)/y: haircut level



Sources: SFTDS; Banque de France calculations.

Note: Annual average for 2025.

Hedge funds' leveraged positions are vulnerable to a deterioration in financing conditions on the repo market and to a sharp rise in market volatility. Stress on the repo market, whether in the form of higher financing costs or contracting volumes, could force hedge funds to unwind their leveraged positions on sovereign bonds. Illiquidity in the repo market could notably result from a decline in the intermediation capacity of the main banks active in the market. While this intermediation capacity currently appears sufficient, it could decline in times of stress.³⁶ More broadly, hedge fund arbitrage positions are sensitive to a

³⁴ According to the *Agence France Trésor* (AFT), the auction cycle refers to price fluctuations for issued securities, both before and after auctions. Securities tend to depreciate in the days leading up to the auction, then appreciate in the days following.

³⁵ See also Hermes (F.), Schmeling (M.) and Schimpf (A.), "Unpacking repo haircuts and their implications for leverage", *BIS bulletin*, No. 117, 2 December.

³⁶ One indicator of the intermediation capacity of banks is the margin they have in relation to their capital requirements expressed as a leverage ratio (see Section 1.5). See also: Ampudia (M.) (2025), "Constraints on intermediary banks can undermine functioning government bond markets", *The ECB Blog*, European Central Bank, 22 September.

sudden peak in market volatility, which would likely trigger an increase in margin calls on derivative positions and thus a risk of a fire sale of sovereign bonds. The unwinding of leveraged positions has already amplified episodes of US Treasury market volatility, for example during the Covid-19 crisis in March 2020 and more recently in April 2025.

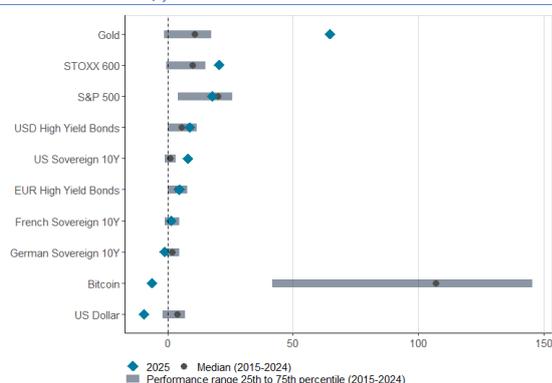
1.2 On the equity markets, uncertainty is growing around valuations, particularly with respect to artificial intelligence

A rebound in asset prices and easing volatility amid persistent uncertainty

US economic policies have fuelled exuberance for risky assets since the crash triggered by the tariff announcements on 2 April 2025. In the second half of 2025, the markets – buoyed by optimism surrounding the artificial intelligence (AI) sector (see Box 1.2) – anticipated a more accommodative US monetary policy, an easing of international trade tensions, a strong US economy and robust corporate earnings. These expectations led to a rebound in valuations on the equity and corporate bond markets and an easing in volatility across all asset classes (see Charts 1.13 and 1.14). The markets therefore do not seem to have fully factored in the persistent uncertainties around economic policy and the geopolitical environment, even if the record rise in the price of gold could be partly the result of certain investors seeking to hedge and diversify. Short-lived episodes of renewed volatility in the fourth quarter of 2025 served as a reminder of the risks associated with a sudden reassessment of market expectations, which could lead to a rapid realignment of asset prices with the level of uncertainty observed at the end of 2025.

Chart 1.13: Annual performance of the main asset classes in 2025

x: total annual return/y: asset class



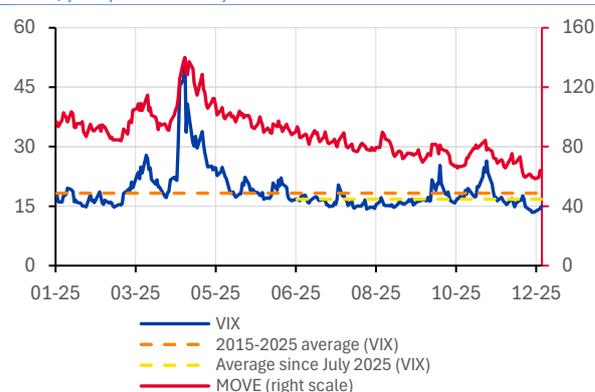
Sources: LSEG WIB; Banque de France calculations.

Note: The total return on an asset is the complete performance generated by an asset, taking into account price fluctuations and distributed income (bond coupons, dividends) and assuming that the income is immediately reinvested.

Grey dots = medians. Diamonds = total return between 1 January 2015 and 31 December 2025. Calculations over the whole of 2025.

Chart 1.14: Implied volatility of US equities and Treasuries

x: time/y: implied volatility



Sources: Bloomberg; Banque de France calculations.

Note: The VIX measures the expected 30-day forward-looking volatility of the US stock market (S&P 500). The Merrill Option Volatility Estimate (MOVE) measures the expected future volatility of US Treasury securities.

Most recent value: 31 December 2025.

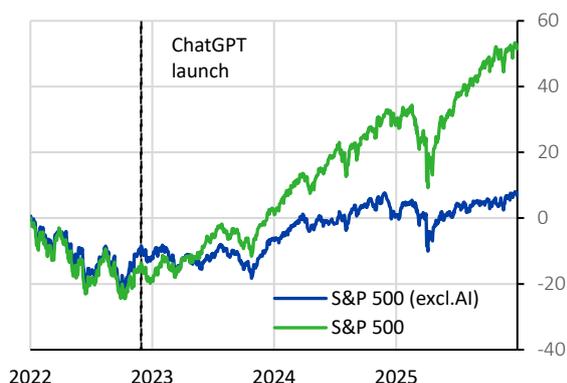
The equity markets are close to their historical highs, and the heightened concentration of market capitalisation around artificial intelligence exposes them to the risk of a disorderly correction

US equities, which had been underperforming compared with European stock market indices at the beginning of 2025, posted comparable performances over the year as a whole. In 2025, the S&P 500 in the United States and the Euro Stoxx 600 in Europe rose by 19.6% and 23.2%, respectively, while the CAC 40 in France posted growth of 15.5%. The catch-up in S&P 500 performance was driven by the growth of AI sector companies during the second half of the year. By way of comparison, the S&P 500 index excluding AI grew by only 6% over the same period (see Chart 1.15). However, the US index was more volatile (19% actual volatility)

than the CAC 40 and the Euro Stoxx 600 (16% and 14% actual volatility, respectively), mainly due to renewed trade tensions prompted by “Liberation Day” in April. This episode also had consequences for French equities, encouraging outperformance among companies focused on the domestic market, despite the national political risk. The sharp rebound in international stock market indices in what is a highly uncertain environment increases the vulnerability of markets to a resurgence of tensions.

Chart 1.15: S&P 500 performance (with and without AI)

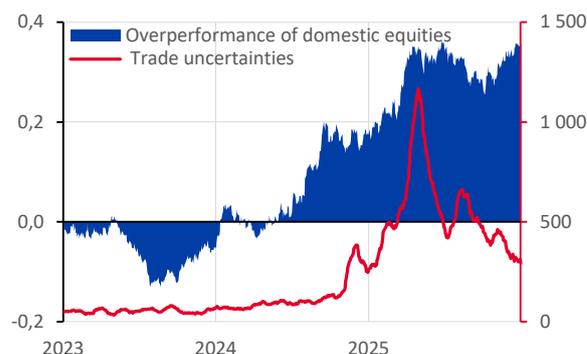
x: time/y: cumulative equity market performance (%)



Sources: LSEG WIB; Banque de France calculations.
 Note: The S&P 500 AI sector companies considered are NVIDIA, Apple, Microsoft, Meta Platforms, Amazon, Broadcom, Tesla, Alphabet, Oracle, Palantir, Micron Technology, Arista Networks, Adobe, Palo Alto, AMD, Intel, Salesforce, Servicenow and IBM.
 Most recent value: 31 December 2025.

Chart 1.16: Outperformance of French domestic equity in a context of trade tensions

x: time/y: [lhs] outperformance (%); [rhs] indicator of trade uncertainties according to Caldera et al. (2020)³⁷



Sources: LSEG WIB, Caldara et al. (2020); Banque de France calculations.
 Note: The overperformance of domestic shares is estimated using a series of cross-sectional regressions (Fama and Macbeth, 1973) of the daily performance of SBF 120 shares across a set of characteristics: the ratio of domestic sales to turnover (variable of interest), capitalisation, book-to-market, return on equity, leverage, capital expenditure and tangible fixed assets. The blue shaded area in the chart corresponds to the cumulative outperformance between January 2023 and December 2025 associated with an additional 1 percentage point of domestic sales. A value of 100 on the right-hand scale indicates that 1% of all newspaper articles cover trade policy uncertainty.
 Most recent value: 31 December 2025.

French and US equity market capitalisations are elevated, with a significant risk of correction in line with the mounting concentration. While forward price-to-earnings ratios (P/E ratios) may be below the peak reached at the end of 2021 and during the dot-com bubble, they are nonetheless well above their long-term average, even despite the heightened geopolitical and trade tensions. However, we can see a significant gap between the market capitalisations of US and French equities, which have average P/E ratios of 26 and 22, respectively (see Chart 1.17). The gap between average and median market capitalisations also reveals certain pockets of overvaluation, namely the technology sector in the United States and the luxury goods sector in France.³⁸ The sector concentration indicator in the United States has exceeded its early 2000s level, despite its “de-FAANGing”³⁹ at the end of 2018 (see Chart 1.18). Meanwhile, despite declining since 2023, the five largest French luxury stocks still account for 40% of the SBF 120's total market capitalisation. This elevated market capitalisation and heightened index concentration exposes markets to sudden corrections in the event of disappointing corporate earnings, as well as contagion effects from the US market (see Box 1.2).

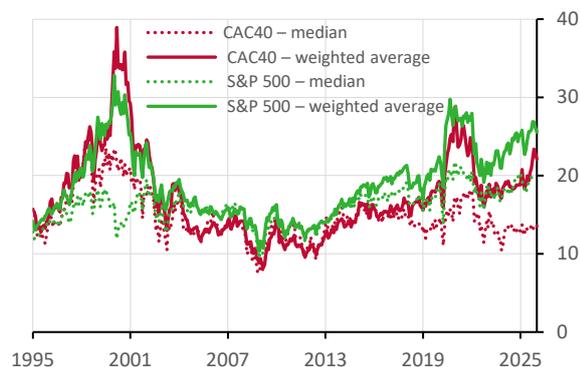
³⁷ Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020), “The Economic Effects of Trade Policy Uncertainty,” *Journal of Monetary Economics*, 109, pp.38-59.

³⁸ The valuation multiples of French companies in the luxury sector remain very high despite the decline in their share prices in 2025. This is due to a slowdown in earnings growth forecasts that combined with this decline in share prices, allowing the price-to-earnings ratio to remain stable.

³⁹ Prior to 2018, FAANG (Facebook, Apple, Amazon, Netflix, Google) stocks were spread between the technology sector (Apple, Facebook, Google) and the consumer discretionary sector (Amazon, Netflix). “De-FAANGing” refers to the sector reclassification that removed Google and Facebook from the technology sector to categorise them, alongside Netflix, in the new communication services sector. This has made the technology sector less concentrated and better reflects these companies' activities.

Chart 1.17: Price-to-earnings ratio of French and US equities

x: time/y: forward P/E ratio



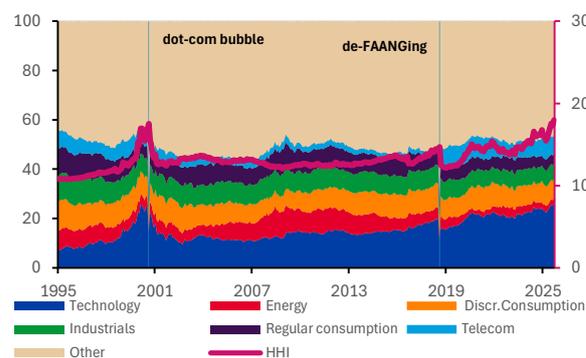
Sources: LSEG Workspace, Institutional Brokers' Estimate System (I/B/E/S); Banque de France calculations.

Note: This chart shows the change in forward price-to-earnings ratios between 1995 and 2025. Financial analysts' projections of short-term earnings (one to two years) are used in the denominator. The ratios are calculated for each company in the index at a given period, then aggregated using a weighted average (by market capitalisation) or the median. The difference between the weighted average and the median indicates the emergence of pockets of overvaluation.

Most recent value: 31 December 2025.

Chart 1.18: Concentration within the S&P 500

x: time/y: [lhs] share of each sector in the S&P 500 market capitalisation (%); [rhs] Herfindahl-Hirschmann Index



Sources: LSEG WIB; Banque de France calculations.

Note: This chart illustrates the changes in each sector's share within the S&P 500 (according to market capitalisation). The "Other" sector aggregates the finance, real estate, utilities, healthcare and commodities sectors. The Herfindahl-Hirschmann Index (HHI), which measures market concentration, is calculated based on the aggregate capitalisation of each sector.

Most recent value: 31 December 2025.

Box 1.2: Artificial intelligence: (over-)optimism for US "tech"

By Tristan JOURDE

The hype around artificial intelligence (AI) persists but is now a subject for debate. Optimism is being stoked by predictions of major macroeconomic gains. Some estimates, such as those from McKinsey (2023)⁴⁰ or Goldman Sachs (2023),⁴¹ suggest that AI could increase average annual GDP growth by 1.5 to 3.4 percentage points over the next decade. This view was corroborated in France at the national level by the report of the French Artificial Intelligence Commission (2024),⁴² chaired by Philippe Aghion and Anne Bouverot. It estimates that "the gains generated by AI would significantly boost France's growth rate, estimated at 1.35% per year in the medium term". Conversely, Daron Acemoglu's macroeconomic forecasts in "The Simple Macroeconomics of AI"⁴³ (2025) are far more modest. Acemoglu estimates that only 4.6% of all tasks can be realistically and profitably automated over the next 10 years and thus concludes that total 10-year productivity gains will amount to 0.66% at most; more than ten times lower than the McKinsey (2023) and Goldman Sachs (2023) forecasts.⁴⁴

The optimism surrounding the future possibilities of AI is reflected in recent stock market performances and is stoking fears of a bubble.⁴⁵ The average market capitalisation of companies operating in the AI sector has doubled since the release of the AI chatbot, ChatGPT, at the end of November 2022. Their recent performance is overwhelmingly due to financial analysts' upward revision of expected growth forecasts

⁴⁰ McKinsey & Company (2023), *The Economic Potential of Generative AI: The Next Productivity Frontier*.

⁴¹ Goldman Sachs (2023), "Generative AI could raise global GDP by 7 percent".

⁴² Commission de l'intelligence artificielle (Artificial Intelligence Commission) (2024), "AI: Our Ambition For France".

⁴³ Acemoglu (D.) (2025), *The simple macroeconomics of AI*. *Economic Policy*, 40(121), pp. 13-58.

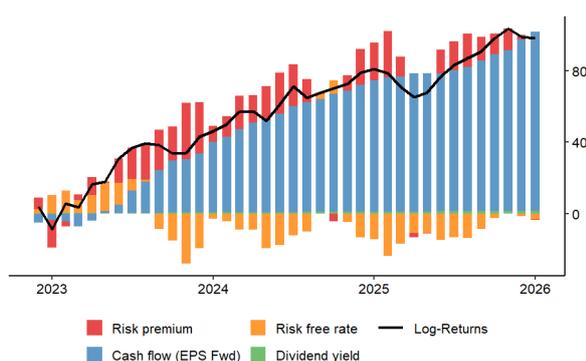
⁴⁴ In addition to the figures, the timing and capacity for large-scale adoption of AI raise important questions. Brynjolfsson, Rock and Syverson (2021) point out, through the concept of the "J-curve", that the intangible investments needed (in training, reorganisation, etc.) tend to overshadow the initial productivity gains. Finally, on a theoretical level, Aghion, Jones and Jones (2017) raise a long-term risk: the ease of imitation provided by AI could reduce inventors' rents and, ultimately, discourage innovation.

⁴⁵ According to the Bank of America's monthly survey for October 2025, 54% of US fund managers believe that technology stocks are overvalued.

(see Chart 1), well illustrated by the case of Oracle, whose stock soared after posting results driven by cloud infrastructure demand. Although today's technology leaders are generating very significant cash flows – unlike the situation observed during the dot-com bubble of the late 1990s – forecasts seem particularly optimistic. Analysts anticipate growth in earnings of more than 80% over the next two years for AI companies. By comparison, the outlook for other US and European companies is for growth of 26% and 20%, respectively (see Chart 2).

Chart 1: Breakdown of US AI companies' performance

x: time/y: cumulative logarithmic return (%)



Sources: LSEG WIB, I/B/E/S, Federal Reserve Economic Database (FRED); Banque de France calculations.

Note: This chart breaks down the cumulative logarithmic return of an AI equity portfolio (black line) into three fundamental components: dividends (dividend yield), cash flow (growth in anticipated earnings forecasts) and the risk-free rate (the impact of interest rate changes on valuation). The breakdown is based on a first-order Taylor expansion to estimate the sensitivity of the valuation multiple to changes in the risk-free rate, derived from the dividend discount model. The risk premium is calculated as the residual, representing the portion of the return not explained by these three factors. Lastly, the contributions of each share are aggregated at the portfolio level using a weighting based on market capitalisation at the beginning of the period. The S&P 500 AI sector companies considered are NVIDIA, Apple, Microsoft, Meta Platforms, Amazon, Broadcom, Tesla, Alphabet, Oracle, Palantir, Micron Technology, Arista Networks, Adobe, Palo Alto, AMD, Intel, Salesforce, Servicenow and IBM.

Most recent value: 31 December 2025.

Chart 2: Earnings growth outlook according to financial analysts

x: time/y: cumulative expected growth in earnings per share



Sources: LSEG WIB, I/B/E/S; Banque de France calculations.

Note: This chart shows the earnings growth outlook for companies in the S&P 500 and Eurostoxx 600 indices as calculated by financial analysts over a five-year horizon. These outlooks are calculated for each company within the indices. The median for each group is reported for each projection horizon. The S&P 500 AI sector companies considered are NVIDIA, Apple, Microsoft, Meta Platforms, Amazon, Broadcom, Tesla, Alphabet, Oracle, Palantir, Micron Technology, Arista Networks, Adobe, Palo Alto, AMD, Intel, Salesforce, Servicenow and IBM.

Concerns about the profitability of the sector infrastructures and the risk of overinvestment should temper the optimism. On the one hand, AI companies' capital expenditure is soaring, increasing by 50% between 2023 and 2024, compared with an average of 17% per year over the previous decade.⁴⁶ On the other, the capital expenditure to total assets ratio rose from 5.5% in 2023 to 8% in 2024 (Chart 3) and continued growth at a sustained pace is forecast for the next two years. This expenditure goes hand-in-hand with the increased indebtedness of the players in the sector, which nonetheless is still limited in both the public and private markets (see Chapter 2). Furthermore, the expenditure is based on an increasingly circular ecosystem, with tech giants engaging in reciprocal transactions. For example, on 22 September 2025, NVIDIA announced that it intended to invest USD 100 billion in OpenAI for the development of its servers, which in turn will purchase the chips needed to train its models. The profitability of this infrastructure essentially depends on the ability to monetise AI services by charging end-customers, which has not yet been fully established. These concerns are reflected in investor behaviour. In recent months,

⁴⁶ Data are available for all companies mentioned in the note to Chart 3 for the 2013–24 period with the exception of Palantir (data available from 2018 onwards).

the average volatility of individual AI stocks has reached 40%, compared with a stable level of 30% for individual non-AI US stocks (see Chart 4).

Chart 3: Annual capital expenditure (CAPEX) of AI companies and CAPEX-total assets ratio

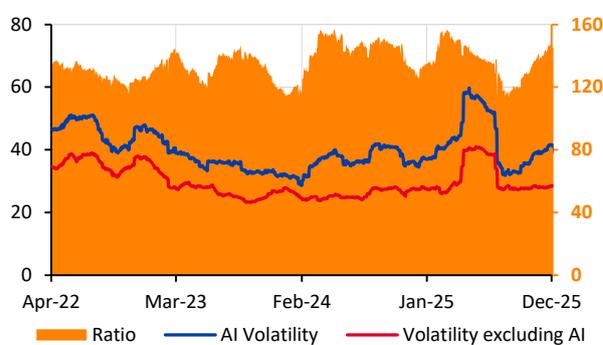
x: time/y: [lhs] (USD billions); [rhs] (%)



Sources: LSEG WIB; Banque de France calculations.
 Note: The AI sector companies considered are NVIDIA, Apple, Microsoft, Meta Platforms, Amazon, Broadcom, Tesla, Alphabet, Oracle, Palantir, Micron Technology, Arista Networks, Adobe, Palo Alto, AMD, Intel, Salesforce, Servicenow and IBM.
 Most recent value: December 2024.

Chart 4: Recent increase in volatility on US AI stocks (listed only)

x: time/y: [lhs] annualised volatility (%); [rhs] ratio of AI volatility to non-AI volatility (%)

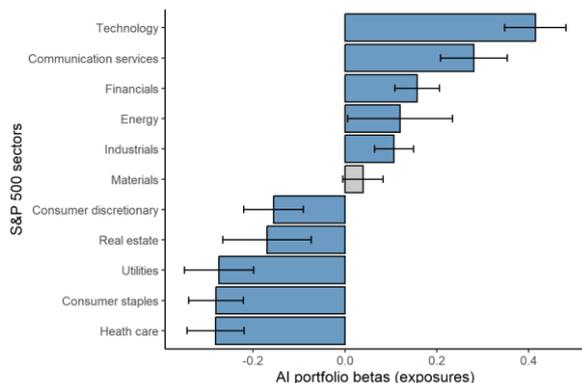


Sources: LSEG WIB; Banque de France calculations.
 Note: The annualised volatility of each S&P 500 equity is calculated based on daily performance over rolling three-month periods. IA and non-IA volatility corresponds to the average individual volatility for each of these groups. The S&P 500 AI sector companies considered are NVIDIA, Apple, Microsoft, Meta Platforms, Amazon, Broadcom, Tesla, Alphabet, Oracle, Palantir, Micron Technology, Arista Networks, Adobe, Palo Alto, AMD, Intel, Salesforce, Servicenow and IBM.
 Most recent value: 31/12/2025

However, the optimism surrounding AI does not seem to have fed through to the rest of the economy. The S&P 500's performance in 2025 (up 19.6%) is almost exclusively due to the growth of AI companies, as the non-AI index gained only 6% over the period. An analysis of the sensitivity of the S&P 500 sectors to AI performance reveals that the main beneficiaries are the technology sector, communication services and, to a lesser extent, finance and industry (see Chart 5). The other sectors – consumer discretionary and staples, real estate, utilities and healthcare – have not shared the benefits of this optimism and have even underperformed, potentially due to portfolio sector-reallocation. Geographically, the US technology sector significantly outperformed its European, UK, Japanese and Chinese peers (see Chart 6). This perception of an impact that is highly concentrated, rather than of a widespread revolution, is consistent with the modest estimates of Acemoglu (2025). In conclusion, optimism is concentrated within a limited number of US companies, and although they wield significant heft in the US market (the Magnificent Seven account for 33% of S&P 500 capitalisation), the risk of a bubble spreading to the global tech sector or the entire US market is limited.

Chart 5: S&P 500 sector sensitivity to AI

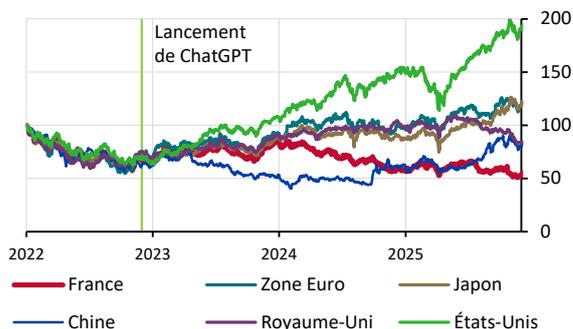
x: time/y: beta



Sources: LSEG WIB, K. French; Banque de France calculations.
 Note: This chart shows the sensitivity (beta) to an AI factor of the stock market performance of each S&P 500 sector. First, the returns of each sector and the market (S&P 500) are adjusted to remove the contribution of the AI companies they contain. An AI portfolio weighted for market capitalisation is then compiled. The daily returns of each sector are regressed on this AI factor, on market factors (adjusted S&P 500) and on Fama-French factors (SMB, HML, etc.). The error bar corresponds to the confidence interval (95%) around the coefficient.

Chart 6: Comparison of tech company performance by country

x: time/y: 31 December 2021 = 100



Sources: LSEG WIB; Banque de France calculations.
 Note: This chart compares the changes in stock market performance for technology indices in the United States, the euro area, France, the United Kingdom, Japan and China between the end of 2021 and the end of 2025.
 Most recent value: 31 December 2025.

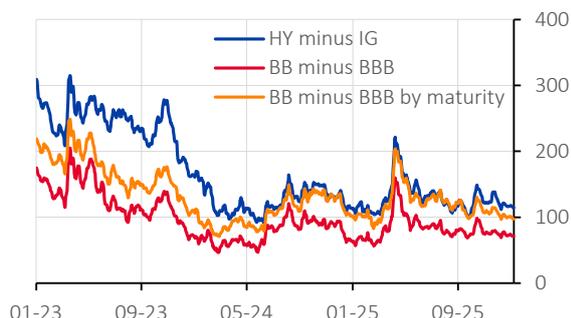
Despite the uncertain environment, risk appetite remains strong in the corporate bond markets

Credit risk premiums on European and US corporate bonds remained historically low in 2025, despite a few significant defaults in the United States in the second half of the year. After widening during the market tensions of April 2025, corporate bond credit spreads contracted in the second half of 2025 to a level close to their historic low. The bankruptcies of two companies in the United States – First Brands and Tricolor – in September 2025 (see Box 2.3) and revelations of fraud on bank exposures in the United States highlighted fragilities in the US credit market. However, these incidents were perceived as isolated events by most market participants, and their impact on the bond market was limited and concentrated in the riskiest segments. Average spreads on high-yield bonds widened between the end of September and the beginning of October 2025, before returning to a level close to their historic low (see Chart 1.19).

Given these favourable market conditions, euro-denominated corporate bond issuance, particularly from US issuers, has grown. In 2025, net issuance accounting for maturing bonds reached its highest level in recent years, with an increase in issuance by European non-financial corporations (see Chart 1.20). US corporations have also stepped up their euro-denominated issuance, attracted by lower financing costs compared to their domestic markets and seeking to diversify their financing sources in an uncertain economic environment. While large technology companies in the United States significantly increased their issuance volume on the US dollar bond market in 2025, some Magnificent Seven companies also issued euro-denominated bonds worth EUR 13.25 billion in total in 2025, compared with zero issuance in the previous five years.

Chart 1.19: Yield spread between European HY and IG bonds

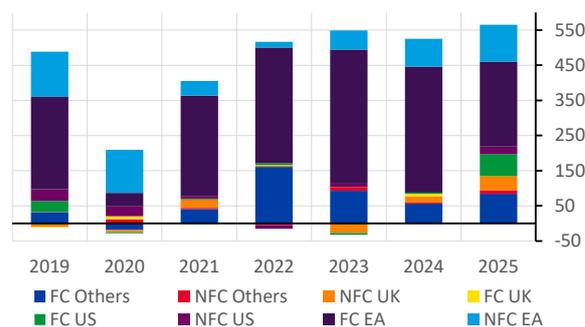
x: time/y: spread (basis points)



Sources: CSDB, LSEG Workspace; Banque de France calculations.
 Note: HY: high yield; IG: investment grade. The maturity-adjusted measure compares yields between rating segments by adjusting for differences in maturity.
 Most recent value: 31 December 2025.

Chart 1.20: Annual net issuance of euro-denominated debt securities by region of issue

x: time/y: amount (EUR billions)



Sources: CSDB; Banque de France calculations.
 Note: NFC: non-financial corporations; FC: financial corporations.
 Most recent value: 31 December 2025.

Channels of contagion to the European financial system from a potential shock on US risky assets

Although the market environment remained favourable to risky assets in 2025, the accumulation of risks warrants an analysis of the repercussions of a potential disorderly adjustment. A shock on risky asset markets in the United States could spread to the French and European financial systems through a range of direct (financial exposures) and indirect (macroeconomic consequences) channels. A sudden asset valuation correction can become a source of systemic risk if it is amplified by the vulnerabilities of financial participants.

The main European holders of securities issued by US-resident entities are investment funds (see Chart 1.21). In France, the share of US equities in French equity fund portfolios has risen sharply in recent years from 15% in 2017 to almost 23% in the third quarter of 2025 (see Chart 1.22). This trend is due to (i) the persistent outperformance of US markets (valuation effect), which mechanically increases the weight of these assets and (ii) the stepping-up of their positions (flow effect), which began at the end of 2023. While the leveraged positions of French and European equity funds are generally limited,⁴⁷ they could, nonetheless, have to deal with a greater number of redemption requests in the event of market tensions, which could push them to make forced sales. As a case in point, the shock triggered by the United States' tariff announcements on 2 April prompted temporary outflows from the European equity funds that invest mainly in the United States (up to 0.6% of assets under management in the weeks following the announcement). Historically, when there is a downturn in risky assets, the US dollar tends to appreciate, which has led many investors outside the United States, such as European investment funds, to maintain unhedged currency exposures on US equities: the US dollar itself then acts as a hedge by appreciating when equity valuations fall. However, a breakdown in these traditional correlations – as was seen in April 2025, when US equities and the US dollar depreciated simultaneously – can increase the risk associated with these positions for European investors (see Box 1.3). In addition to their direct holdings, banks may be exposed to equity market risks through counterparty risk arising from their relationships with highly leveraged non-bank players, as demonstrated by the collapse of Archegos in March 2021, caused by its defaulting on margin calls on highly leveraged positions in equity derivatives.

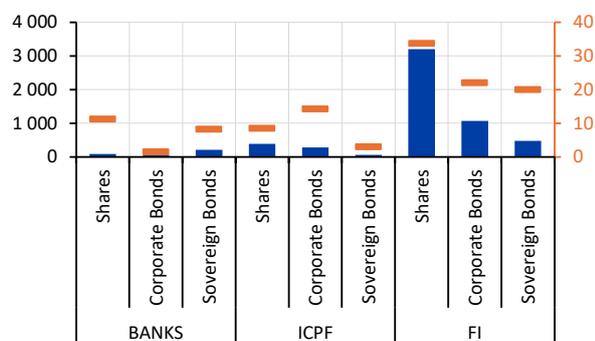
The more indirect consequences of a significant and prolonged shock to US markets could also impact the stability of the financial system. A sudden correction in US stock markets could be transmitted to the European financial system through a macroeconomic channel. An economic slowdown in the United States, linked to a drop in consumption and investment, could feed through to European economies through a decline in confidence and reduced trade with the United States. Lastly, a sudden US stock market correction would

⁴⁷ Banque de France (2022), [Assessment of risks to the French financial system, December](#).

bring down global risk appetite and thus lead to poorer financing conditions and increased volatility. This could result in heightened liquidity requirements to meet margin calls or investor requests for redemptions, with a risk of forced sales by non-bank players that could affect the most liquid markets such as those for sovereign bonds.

Chart 1.21: Holdings of securities issued by US-resident entities by category of euro area investor

x: time/y: [lhs] amount (EUR billions); [rhs] share of securities held (%)

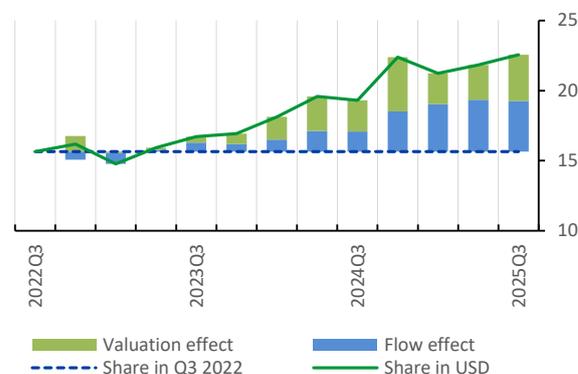


Sources: SHS-S; Banque de France calculations.

Note: For each category of securities, this chart shows the proportion issued by US residents in the total securities held at Q3 2025. USD-denominated securities issued by non-US-resident entities are not included. The chart covers investor sectors domiciled in the euro area (including subsidiaries of non-euro area groups) and excludes the holdings of European group subsidiaries located outside the euro area. The ICPF category refers to insurance and pension funds, and the FI category refers to investment funds.

Chart 1.22: Breakdown of changes in the share of US equities in French fund portfolios

x: time/y: share of assets under management (%)



Sources: SHS-S; Banque de France calculations.

Note: This chart depicts the cumulative change in the breakdown between the flow effect and the valuation effect of the share of USD-denominated equities in French fund portfolios. Most recent value: Q3 2025.

Box 1.3: How have European investment funds adapted their US-dollar currency risk hedging in 2025?

By Martin Saillard and Floris Van Dijk

The US administration’s tariff announcements in April 2025 came as a considerable shock to international financial markets, causing the US dollar to depreciate significantly against the euro and other main currencies. The uncharacteristic depreciation of the US dollar simultaneous with declining equity and bond prices, was partly attributed to a wave of ex-post hedging by institutional investors to mitigate losses on unhedged foreign currency exposures.⁴⁸ As a result, turnover in global foreign exchange markets averaged EUR 9,500 billion per day in April 2025 (up 27% from April 2022), as investors increasingly turned to currency derivatives.⁴⁹

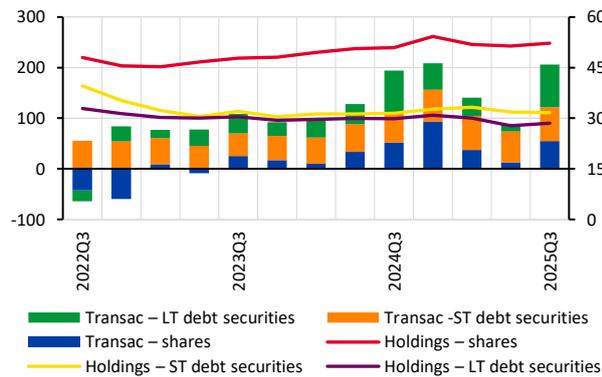
In Europe, funds did not reduce their holdings of US-dollar denominated assets following the tensions of April 2025, despite uncertainty surrounding the US dollar. After robust purchases at the end of 2024, flows in equities and long-term debt securities calmed in the first half of 2025 (see Chart 1). European funds resumed their investment in US-dollar denominated assets in the third quarter of 2025. These purchases, combined with the valuation effect, pushed US-dollar denominated asset holdings to a high level, particularly holdings of equities, with 52% of equities held by European funds in the third quarter of 2025 denominated in US dollars.

⁴⁸ Shin (H.-S.), Wooldridge (P.) and Xia (D.) (2025), “US dollar’s slide in April 2025: the role of FX hedging”, *BIS Bulletin*, No. 105, April.

⁴⁹ Huang (W.), Krohn (I.) and Sushko (V.) (2025), “Global FX markets when hedging takes centre stage”, *BIS Quarterly Review*, December.

Chart 1: Euro area investment fund purchases/sales of USD-denominated assets

x: time/y: [lhs] (USD billions); [rhs] (%)



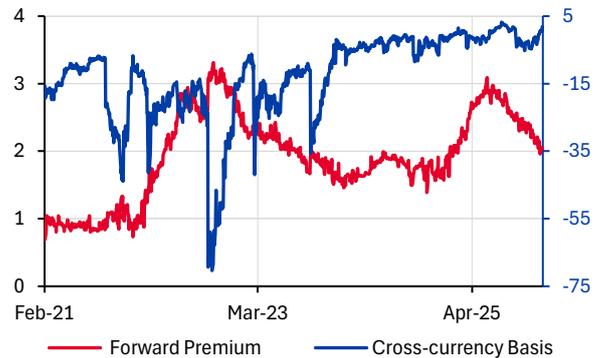
Sources: SHS-S; Banque de France calculations.

Note: Transactions – purchases and sales of USD-denominated securities (left-hand scale). Holdings – share of US-dollar holdings in European funds, by asset class (right-hand scale). European funds are defined according to domicile.

Most recent value: Q3 2025.

Chart 2: Forward premium against the dollar for an investor in euro

x: time/y: [lhs] (%); [rhs] (basis points)



Sources: Bloomberg; Banque de France calculations.

Note: The forward premium is the difference between the three-month EUR-USD forward rate and the daily spot rate, annualised. The cross-currency basis measures the difference between the effective cost of borrowing in USD via the swap market and the implied rate derived from the cross-interest parity (CIP) rate, reflecting financing tensions or liquidity preferences. A negative cross-currency basis indicates higher costs for investors to hedge their USD exposure.

Most recent value: 31 December 2025.

The forward premium on US dollars is a significant determining factor in European funds' hedging strategies, which generally still incorporate only partial hedging. The cost of hedging the currency risk, mainly through foreign exchange swaps (FX swaps) and forwards, hinges on the interest-rate differential between the US dollar and the euro. This cost is higher when the US dollar interest rate exceeds the euro interest rate.⁵⁰ The 2022-23 cycle of monetary tightening – characterised by a more significant rise in short-term US dollar rates – significantly increased foreign investors' hedging costs and thereby led to a reduction in the volume of US-dollar hedging transactions. As a result, the cost of EUR/USD hedging – the forward premium – increased from 2022 onwards. At the same time, the cross-currency basis, which measures the premium or additional cost demanded by the market relative to theoretical interest rate parity, narrowed, reflecting lower demand for US-dollar financing via swaps (see Chart 2).

A granular analysis of derivatives transaction data reveals marked heterogeneity in currency risk hedging strategies among European funds. By cross-referencing portfolio data with data on the derivatives contracts of funds exposed to currency risk (funds with US-dollar asset holdings but whose units are mainly euro-denominated),⁵¹ it appears that one-third of these funds do not hedge against currency risk, indicating a certain risk tolerance or in some cases, an opportunistic approach to risk management. Bond funds stand out as the most common users of currency hedging. Their median hedge ratio⁵² hovers at around 80%, significantly higher than that of equity funds, which generally maintain a ratio of below 10% (see Chart 3). Mixed funds tend to position themselves in between, at around 30%. These findings are consistent with other granular

⁵⁰ The forward exchange rate is determined by the interest rate parity. If the US dollar offers a higher yield, it must trade at a forward discount to eliminate any arbitrage opportunities. This discount directly translates into a forward exchange rate that is less favourable than the spot rate, thus representing a forward premium for investors who need to sell US dollars forward.

⁵¹ We identify funds exposed to currency risk as equity, bond and mixed funds reporting on the Lipper commercial database with at least 75% of their liabilities denominated in euro, holding assets denominated in US dollars and having no specific mandate to hedge currency risk.

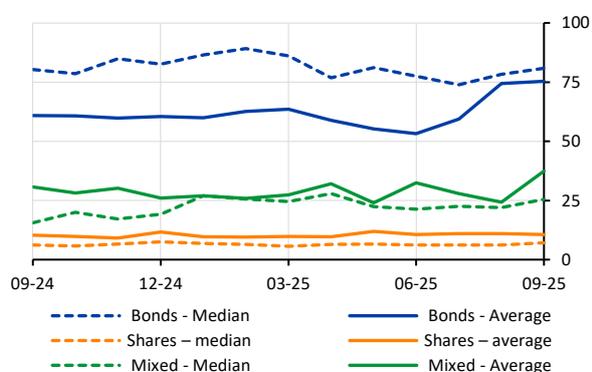
⁵² A fund's hedge ratio represents the amount – including forward contracts, futures and swaps – of currency hedging relative to US-dollar denominated asset holdings. Currency options are used less frequently by European funds and are generally excluded from empirical analyses of the use of currency derivatives by investment funds.

studies on European funds⁵³ and US equity funds.⁵⁴ This divergence can notably be explained by the fact that currency hedging is a decisive factor in risk-adjusted returns in the bond segment, whereas for equity funds, portfolio volatility is mainly determined by the performance of the securities.

The data observed since April 2025 show that investors have not significantly stepped up their hedging against currency risk. Between April 2025 and the end of December 2025, the gross notional value of currency derivatives (EUR-USD forwards and swaps) held by bond funds remained relatively stable, largely fluctuating between USD 700 billion and USD 750 billion (see Chart 4). Only equity funds showed a slight increase in currency derivatives use during this period. The notional value of insurers and pension funds remained constant at around USD 550 billion. The evolution of average hedge rates weighted by outstanding amounts suggests that the larger bond funds and mixed funds were able to increase their use of currency derivatives between June and December 2025 more than smaller funds.

Chart 3: European investment fund hedge ratios

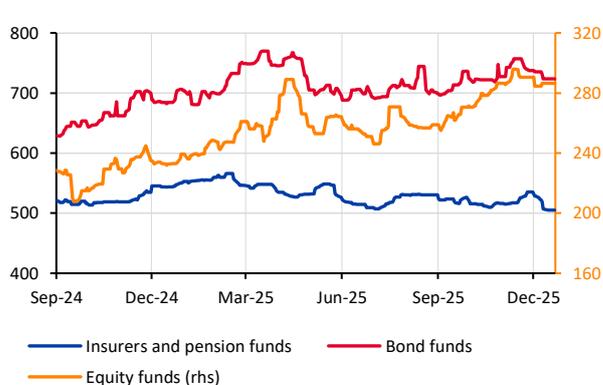
x: time/y: hedge ratio



Sources: LSEG Lipper database, EMIR; Banque de France calculations.
 Note: The hedge ratio represents the ratio of the notional amount of EUR/USD derivative contracts relative to the total amount of asset holdings denominated in US dollars. Weighted average based on outstanding asset holdings denominated in US dollars.
 Most recent value: 30 September 2025.

Chart 4: Change in the gross notional value of currency derivatives held by major European investors

x: time/y: [lhs] (%); [rhs] (basis points)



Sources: EMIR; Banque de France calculations.
 Note: Change in the gross notional value of EUR/USD forward contracts and foreign exchange swaps held by European funds, insurers and pension funds.
 Most recent value: 31 December 2025.

A sudden adverse currency movement could erode the value of underlying assets and effect the performance of investment funds that choose not to hedge – or only partially – their US-dollar exposures. Furthermore, many strategies are based on stable correlations between asset classes. However, the US dollar recently decoupled from certain traditional asset classes, such as equities and gold, which complicates risk management for investment funds and adds to the risk borne by investors. In the euro area, the main investors in equity funds exposed to currency risk on their US-dollar exposures are households, other investment funds, and European insurers and pension funds. Non-European investors favour US-dollar denominated fund units.

Even with an active hedging strategy, bond funds remain sensitive to roll-over risk. This risk arises from the maturity mismatch between short-term (often three months) FX derivatives used to hedge bond assets and their long-term maturity. A significant increase in the forward premium can prompt investors to reduce their exposure to US-dollar denominated bonds in order to preserve their capital returns. This phenomenon of disengagement is more characteristic of funds with high exposure to roll-over risk or funds subject to strict

⁵³ Bräuer (L.) and Hau (H.) (2024), "Fund-level FX hedging redux", Working Paper Series, No. 148, [European Systemic Risk Board](#).

⁵⁴ Opie (W.) and Riddiough (S.) (2025), *On the Use of Currency Forwards: Evidence from International Equity Mutual Funds*, November.

hedging mandates.⁵⁵ Tensions in the currency derivatives market can then mutate into a systemic demand shock, particularly in the US-dollar bond market.

Unlisted or “private” capital markets are particularly sensitive to changes in the macroeconomic environment

The private equity and private credit markets, which have expanded considerably since 2009, could be put under pressure in the event of a sustained economic slowdown. Although France is the leading market in the European Union for both these segments of activity, their financing volumes remain limited relative to the French financial system as a whole. Nevertheless, they merit constant attention due to their vulnerability to a higher interest rate environment and the uncertain macroeconomic context. The consequences of the development of private credit for the financing of the economy and financial stability are assessed in Chapter 2 of this report.

Private equity is going through a slowdown, characterised by more difficult corporate disposals, which can entail longer asset holding periods and raise liquidity needs. Capital raised by French funds amounted to EUR 13.9 billion in the first half of 2025, which was largely unchanged from 2023-24, but down from the peak of EUR 17 billion recorded in the first half of 2022.⁵⁶ Portfolio company divestments have also slowed since 2023, leading to a lengthening of funds’ lifespans. A survey conducted by Ernst and Young⁵⁷ highlights asset managers’ concerns worldwide with regard to exit opportunities, as investors exert increased pressure to achieve liquidity. This uncertain environment partly explains the wait-and-see attitude of investors, with some preferring to put off committing new funds in order to have greater visibility. Furthermore, asset managers are trying to meet their short-term liquidity requirements by implementing distribution strategies such as continuation funds, which allow holdings in certain portfolio companies to be transferred to a new fund. In the private credit segment, the slowdown in private equity has limited opportunities to finance new leveraged buyouts while increasing the refinancing needs of existing companies (see Chapter 2).

The crypto-asset market has undergone a sharp correction since its recent peak and remains highly volatile

There was a downturn in the crypto-asset market in autumn 2025, following robust growth at the beginning of the year in what was deemed to be a favourable US regulatory environment.⁵⁸ After hitting USD 3.771 trillion at the end of September 2025, total crypto-asset market capitalisation fell by 24% to USD 2.883 trillion at the end of December (see Chart 1.23). Bitcoin followed the same trend, losing 23% between the end of September and the end of December 2025, and around 11% over the year. This correction can notably be explained by a reduction in risk appetite in the crypto-asset market linked to economic and geopolitical uncertainties. Liquidations of leveraged positions amplified the downturn, while profit-taking to take advantage of the sharp rises in the first half of the year added to the selling pressure. Nevertheless, these adjustments remained largely confined to the crypto-asset ecosystem, without any significant spillover to date to traditional financial markets.

⁵⁵ Kubitzka (C.), Sigaux (J.-D.) and Vandeweyer (Q.) (2025), “The implications of CIP deviations for international capital flows”, *Working Paper Series*, No. 3017, [European Central Bank](#).

⁵⁶ France Invest data.

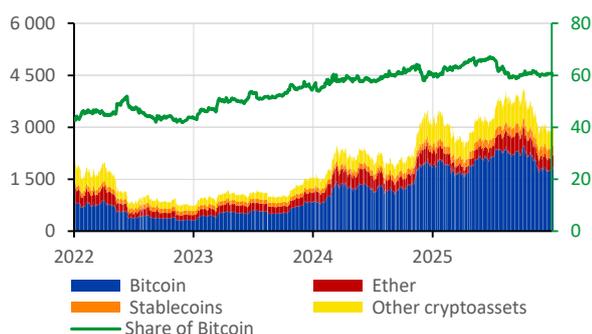
⁵⁷ EY, [Private Equity Pulse: key takeaways from Q2 2025](#)

⁵⁸ The US government has issued several policy directives favourable to crypto-assets, and several regulatory texts have been adopted in the United States, including the Genius Act aimed at establishing a regulatory framework for stablecoins, the Clarity Act, which deals with the division of powers between the Securities and Exchange Commission and the Commodity Futures Trading Commission with regard to crypto-assets, and the Anti-CBDC Surveillance State Act, which prohibits the US Federal Reserve from issuing a central bank digital currency without authorisation from Congress.

The growth of investment vehicles providing exposure to unbacked crypto-assets is contributing to a strengthening of the links with traditional financial players.⁵⁹ After strong inflows in early 2024, and despite outflows of around USD 4 billion from their October peak, cumulative inflows into spot Bitcoin exchange-traded funds (ETFs) reached nearly USD 45 billion. The assets under management of the main Bitcoin ETFs amounted to almost USD 114 billion at the end of December 2025 (see Chart 1.24). US institutional investors account for around 30% of Bitcoin ETF holdings, with the remainder mainly held by retail investors, while hedge funds continue their arbitrage strategies between spot and futures markets.

Chart 1.23: Crypto-asset market capitalisation

x: time/y: [lhs] amount (USD billions); [rhs] (%)



Source: LSEG Workspace.

Note: "Other crypto-assets" correspond to crypto-assets that individually account for less than 5% of the total, with the exception of Ripple (XRP), which accounted for 8% at the end of the period. Most recent value: 31 December 2025.

Chart 1.24: Assets under management in spot Bitcoin ETF index products

x: time/y: amount (USD billions)



Source: Bloomberg.

Note: The top three are IBIT BlackRock, Grayscale Bitcoin Trust, and Fidelity Wise BTC. The "others" category corresponds to other ETFs with a weighting of less than 5% of total. Most recent value: 31 December 2025.

Moreover, the vulnerability of Bitcoin Treasury companies – listed companies that accumulate Bitcoin for speculative purposes – has been escalating in the current market environment. Their model, based on debt and equity issuance to finance the purchase of crypto-assets, exposes them to significant liquidity risk that could lead to forced sales in the event of a market downturn. The share price of Strategy (formerly MicroStrategy), the leading company in the sector, fell by around 67% from its peak in July 2025 to the end of December, demonstrating the limitations of this model in a bear market. These companies, which are not subject to the requirements applicable to investment companies, represent a de facto channel of indirect exposure to Bitcoin for institutional investors subject to direct holding restrictions.

1.3 The financial situation of businesses and the real-estate market is stabilising, despite the most indebted players remaining vulnerable to a deterioration in the macroeconomic environment

Loans to non-financial corporations are rising slowly in volume as financing conditions stabilise

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, with a sharper decline in the average interest rate on debt securities (at 3.23% in October) than on new bank loans (at 3.45%, in October 2025).⁶⁰ This year-on-year decrease appears to have benefited companies of all sizes. While banks in the euro area have seen their rates on new loans and rates on outstanding debt converge, the gap has

⁵⁹ Benahmed (R.), Brousse (C.) and Palazzeschi (E.) (2025), "Institutional investments in crypto exchange-traded funds on the rise", *Eco Notebook*, Banque de France, 19 December.

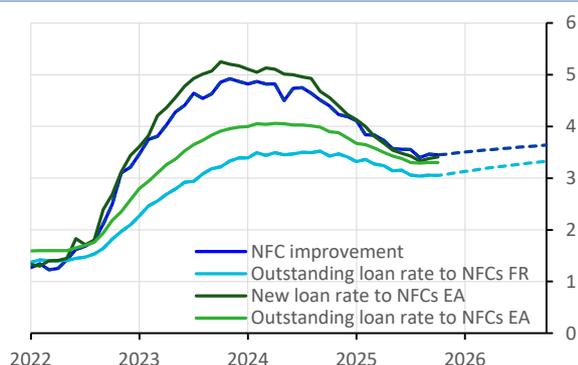
⁶⁰ Banque de France (2025), *Financing of enterprises - 2025-10*, 11 December.

remained unchanged for French banks. The rates on new bank loans and outstanding debt could gradually climb again (see Chart 1.25), thereby slowing the improvement in companies' borrowing capacity. This increase in rates on outstanding debt is due to the current renewal of loans taken out at relatively low fixed and long-term rates before 2022. In the first quarter of 2022, only 30% of outstanding bank loans were at variable rates, and 35% had a residual maturity of less than four years. Given the relatively low proportion of loans in France whose rates adjust in the short term, only 55% of outstanding loans taken out before the rate hike were rolled over at the end of 2025,⁶¹ with the remaining third potentially refinanced at a higher rate than the initial outstanding amount.

Large French companies benefit from favourable financing conditions on the bond market. Despite the political uncertainty in France, credit spreads on French and European corporate bonds remain low. Against this backdrop, several companies, especially among the large groups, are getting financing at rates close to or below sovereign rates for comparable maturities. However, the average credit spreads of French NFCs differ slightly from those of NFCs in the rest of the euro area, with a greater impact on the BBB segment than on the A segment (see Chart 1.26). This trend may be linked to downgrades in the credit ratings of French companies, which mainly concern firms in the investment grade segment (see Chart 1.27).

Chart 1.25: Lending rates for French NFCs

x: time/y: rate (%)



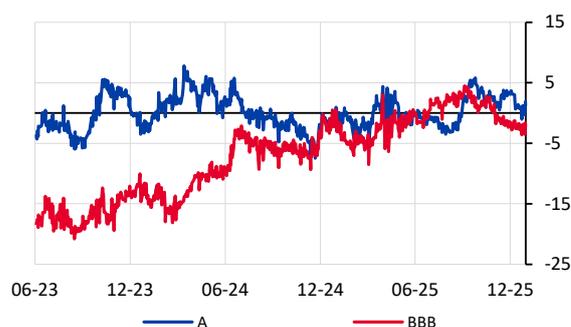
Sources: MIR; Banque de France calculations.

Note: Rates on new loans and outstanding loans are projected on the basis of forward market rates and an econometric estimate of the relationship between market rates and bank lending rates, assuming that debt repayments are fully rolled over at these new rates, with the same maturities.

Most recent value: September 2025, and provisions (dotted line) until September 2026.

Chart 1.26: Yield spread between French NFC bonds and NFC bonds from the rest of the euro area, by rating segment

x: time/y: spreads (basis points)



Sources: CSDB, LSEG Workspace; Banque de France calculations.

Most recent value: 31 December 2025.

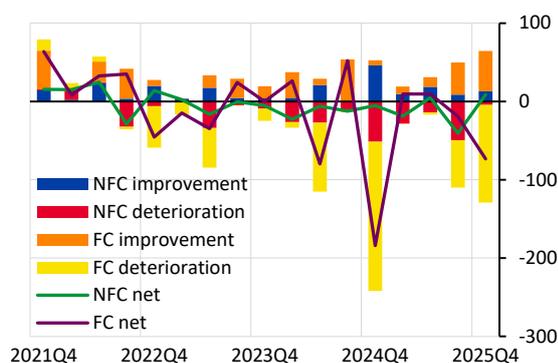
Bank lending to NFCs has continued its moderate recovery. The annual growth rate of outstanding corporate loans increased in 2025, rising from 2.3% in January to 2.7% in October 2025,⁶² mainly driven by loans for investment, while loans for cash declined. The trend is particularly buoyed by large companies and firms in the real estate sector, which tends to have structurally high leverage (see Chart 1.28). At the same time, total bond issuance volumes increased, particularly in the investment grade segment, following a period of relative stability in outstanding amounts (see Section 1.2).

⁶¹ Share of variable-rate loans in Q1 2022 + (share of fixed-rate loans in Q1 2022 x share of loans with a residual maturity of less than 4 years and maturing in Q1 2025). The reference date is set at Q1 2022 in order to use the quarter preceding the rate increase as a benchmark.

⁶² Banque de France (2025), Financing of enterprises - 2025-10, 11 December.

Chart 1.27: Balance of credit rating changes on French corporate debt

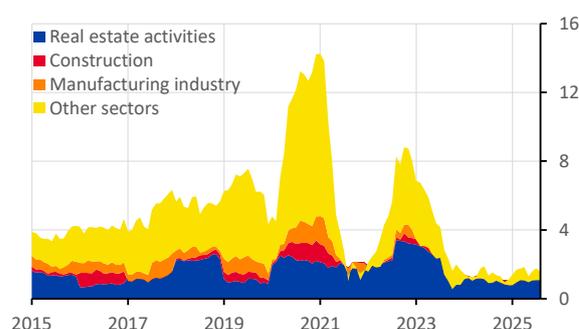
x: time/y: balance of upgrades and downgrades (in EUR billions of debt affected by a rating change)



Sources: CSDB, LSEG Workspace; Banque de France calculations.
Note: HY: high yield; IG: investment grade.
Most recent value: Q4 2025.

Chart 1.28: Contribution of sectors to the annual change in outstanding credit in France

x: time/y: contribution (percentage points)



Sources: Webstat, DIREN data set.
Most recent value: August 2025.

Demand for bank lending remains moderate at the aggregate level in the euro area. According to the euro area [bank lending survey](#) for the third quarter of 2025, euro area banks reported continued moderate demand, albeit with a slight upturn, but less dynamic than anticipated. In France, access to bank lending does not appear to be an obstacle: mid-tier firms and small and medium-sized enterprises (SMEs) continue to benefit from very high approval rates, which are up on the previous quarter (97% for investment loans and over 85% for cash loans).⁶³ The proportion of NFCs facing credit constraints is declining across most sectors, with the exception of industry and services, where it is rising slightly but still remains relatively low.

Little growth in company turnover in an uncertain environment

An analysis of the 2024 financial statements of French NFCs⁶⁴ shows that turnover grew slightly compared with 2023 for micro-enterprises, SMEs and mid-tier firms (see Chart 1.29). For large companies, it fell by 1.9% year-on-year, due to the effect of the energy sector, without which the decline would have been 0.3%. Companies' margin rates held up well despite these developments, remaining stable for SMEs and mid-tier firms and falling slightly in the case of large companies (see Chart 1.30), but still higher for all sizes of company than in the pre-Covid period. This is notably due to the downward trend in the weight of production taxes in value added and better management of personnel costs.⁶⁵ The national accounts data show that the margin rate, although on a downward trend, remained relatively resilient in 2025. After two quarters of decline (31.7% in the first quarter, then 31.1% in the second), it recovered in the third quarter to reach 31.5%. The increase in real wages and employer social security contributions and the deterioration in the ratio between the price

⁶³ Banque de France (2025), [Access to bank financing for companies - 2025-Q2, 4 August](#).

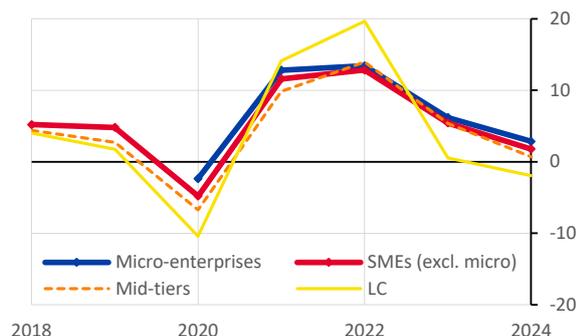
⁶⁴ Banque de France (2025), [La situation financière des entreprises en 2024](#), November.

⁶⁵ Personnel costs as a percentage of value added are stable for SMEs (excluding micro-enterprises) and mid-tier firms, and identical to the 2019 level (74% and 69% respectively). They have fallen for large companies, from 69% in 2019 to 66% in 2024.

of value added and consumer prices⁶⁶ weighed on margins, while productivity continued to trend upwards, helping to limit the decline.⁶⁷

Chart 1.29: NFC turnover grew slightly in 2024

x: time/y: turnover growth rate (%)



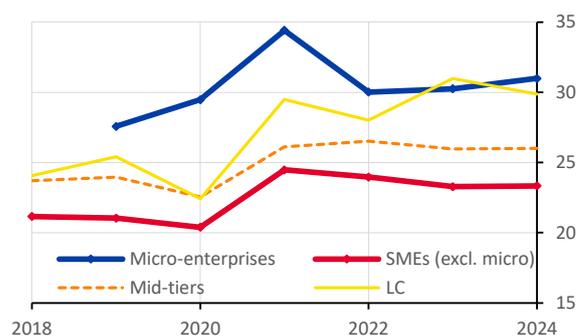
Sources: Banque de France (FIBEN database).

Note: The changes are calculated for a sample of companies whose financial statements are recorded in the FIBEN database for two consecutive years (balanced sample). The size of the companies is taken as that in n-1.

Most recent value: 2024.

Chart 1.30: The NFC margin rate remains resilient

x: time/y: margin rate (%)



Sources: Banque de France (FIBEN database).

Note: The margin rate is the ratio of gross operating surplus to value added.

Most recent value: 2024.

French companies are facing major uncertainty and lacklustre demand, and thus remain vulnerable to changing trade tensions and rising financing costs. Companies' revenues are changing as they encounter sluggish demand and persistently high input prices. Order books in the industry and construction sectors continue to lag below their ten-year average,⁶⁸ while capacity utilisation rates also remain short of their long-term average, despite a slight increase. These figures mask sectoral disparities, as certain sectors, such as aeronautics, pharmaceuticals, capital goods and market services, saw a rebound at the end of 2025 while others, particularly the agri-food and automotive sectors, are experiencing more acute difficulties. For the automotive sector, this development stems from temporary factory closures in France, as elsewhere in Europe, in a context of lacklustre demand⁶⁹ and increased competition, particularly from China. In these circumstances, uncertainty remains high, fuelling a general climate of caution and constraining company revenues.

French corporate debt is stabilising at a high level

Debt (as a percentage of GDP) has been trending downwards in the major euro area countries, but remains high in France. Since mid-2021, both gross debt and cash holdings as a percentage of GDP have been falling

⁶⁶ The ratio of value added to consumer prices measures a company's ability to pass on its costs to its final sales price.

⁶⁷ INSEE (2025), [Institutional sectors – Quarterly national accounts in Q3 2025](#).

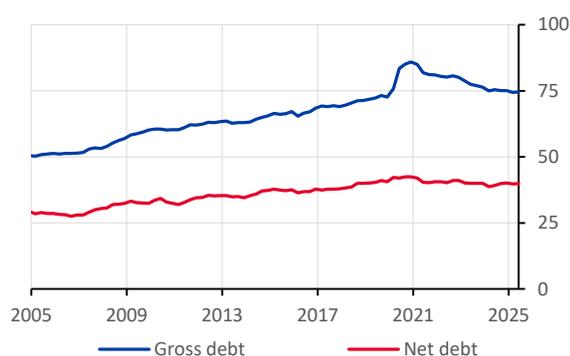
⁶⁸ Banque de France (2025), [Monthly Business Survey](#) – Start of December 2025, 9 December.

⁶⁹ According to INSEE's monthly tendency survey in November 2025, the proportion of enterprises facing what they consider insufficient demand is up compared to August 2025, reaching 36.9%.

simultaneously. As a result, the net debt ratio⁷⁰ has stabilised at around 40%, while consolidated gross debt⁷¹ fell from 85% to 74.7% of GDP between the second quarter of 2021 and the second quarter of 2025,⁷² but remained above its pre-Covid level (see Chart 1.31). However, the consolidated debt ratios – gross and net of cash – of French NFCs still rank highest among the major euro area countries, with euro area averages of 53.8% and 28.3% of GDP, respectively, in the second quarter of 2025. The debt service ratio, which measures a company's ability to service its debt⁷³ through the income it generates, is stable, above its pre-Covid level (47% on average since 2023, compared with 43% in 2019), despite the easing of financing conditions (see Chart 1.32).

Chart 1.31: Consolidated outstanding amounts of gross debt and net debt

x: time/y: debt (% of GDP)



Sources: Banque de France (Webstat), quarterly financial accounts. Most recent value: Q2 2025.

Chart 1.32: NFCs' debt service ratio (DSR)

x: time/y: interest and capital repayments over revenue (%)



Sources: Banque de France (CNFSI), ECB (MIR, BSI, QSA).

Note: DSR is calculated on the basis of consolidated debt and takes into account the average maturity of loans to NFCs, which is required to assess repayment risk at the macroeconomic level. The formula used to calculate the DSR comes from the BIS (2017):

$$DSR = \frac{i_t}{(1 - (1 + i_t)^{-s_j, t})} \times \frac{D_t}{Y_t}$$

In this equation, D_t is the consolidated debt of companies at date t ; Y_t is the gross quarterly income of companies; i_t is the average annual interest rate on their outstanding debt; and s_j, t is the average maturity of the outstanding debt expressed in years.

Most recent value: Q2 2025.

The real estate sector continues to have a significantly higher level of debt than other sectors due to the structural characteristics of what is a highly leveraged activity. Between 2022 and 2023, the largest real estate firms in the euro area faced a threefold threat of falling rental income, rising capital expenditure and higher financing costs. They saw their profit margins contract sharply, leading many of them to report losses.⁷⁴ In 2024, the sector appeared to have gradually reduced its outstanding debt, despite continued weak results. In 2025, the recovery in bank lending could lead to an increase in leveraged loans and credit risk (see Section 1.4).

⁷⁰ The net debt of NFCs is equal to the difference between their (i) bank loans obtained from resident banks and debt securities issued by companies (gross debt) and (ii) bank deposits (sight deposits, time deposits and savings accounts) and investments in resident money market investment funds.

⁷¹ Consolidated gross debt excludes loans between resident NFCs and loans made by resident NFCs to non-resident counterparties belonging to the same group. Banque de France (2021), "Taux d'endettement des agents non financiers", *Stat info*, February.

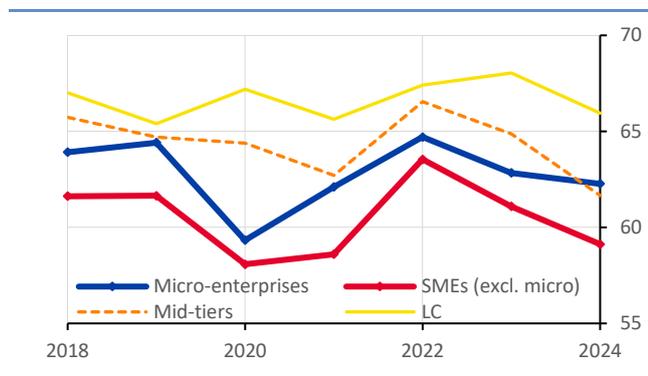
⁷² Banque de France (2025), *Debt ratios by institutional sectors - international comparisons - 2025-Q2, 18 November*.

⁷³ Interest and principal repayments.

⁷⁴ European Central Bank (2024), *Financial Stability Review, May*.

The repayment capacity of French companies deteriorated slightly in 2024. The proportion of companies with a high repayment capacity rating⁷⁵ declined between 2023 and 2024 for all sizes of company (see Chart 1.33), reflecting a catch-up effect following the end of the Covid support measures. A similar catch-up effect was observed in the number of business failures, which rose steadily from the end of 2021 before stabilising at the end of 2025: overall, on an annual basis, the rise in corporate bankruptcies (cumulative over 12 months) continues to gradually slow (a 4.4% increase in October 2025, compared with 6.1% increase in September 2025).⁷⁶ The decline in the proportion of companies with top ratings also reflects the delicate situation facing businesses: slowing turnover and rising financing costs, against a backdrop of weak demand on the one hand, but resilient cash flow and margin rates and declining debt on the other.

Chart 1.33: Proportion of top-rated companies among NFCs
x: time/y: proportion (%)



Source: Banque de France (FIBEN database).

Note: The top ratings here correspond to Banque de France ratings from “1 + Excellent ++” to “4 + Good +”. Ratings from “1 + Excellent ++” to “2 - Very satisfactory” correspond to credit risks that are low enough to be eligible as collateral for refinancing operations with the central bank. Ratings from “3 + Strong ++” to “4 + Good +” were eligible, but became ineligible in mid-December 2024.

Most recent value: 2024.

The commercial real estate market is stabilising amid macroeconomic uncertainty

The main indicators for the commercial real estate market show signs of a fragile recovery that varies from sector to sector. The market was severely affected by rising interest rates and thus entered into a substantial but orderly decline in the third quarter of 2022, characterised by a drop in prices and investment volumes. Although the outlook is now more favourable, with investment up overall and prices stabilising, the market’s recovery remains fragile. In 2025, for example, after a first quarter of large-scale transactions and high investment volume, the second and third quarters underwent a fresh slowdown. On a rolling four-quarter basis, investment volume amounted to around EUR 15 billion⁷⁷ in the third quarter of 2025, above the second quarter-2024 low of EUR 12.5 billion but 40% below the historical average observed between 2004 and 2022 (see Chart 1.34). However, the overall positive trend in investment volume conceals a certain measure of heterogeneity between segments. Investment volumes in office spaces are picking up again, after taking a particular hit in the post-Covid period notably due to the widespread adoption of teleworking (up 38% in the first three quarters of 2025 compared with the same period in 2024; see Chart 1.35). This trend is reflected in

⁷⁵ A high repayment capacity corresponds to a Banque de France credit rating of between “1 + Excellent ++” and “4 + Good +”.

⁷⁶ Banque de France (2025), [Business failures - France - 2025-10, 5 December](#).

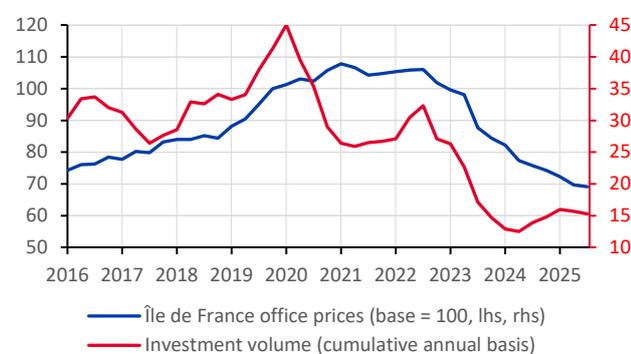
⁷⁷ Source: BNP Paribas Real Estate.

a more moderate decline in Île de France office transaction prices⁷⁸ in the third quarter of 2025 (a 0.8% reduction over the quarter and a 9% reduction year-on-year).

The sector's recovery remains highly sensitive to macroeconomic developments and trade tensions. The slowdown observed after the first quarter of 2025 took place against a macroeconomic backdrop of increased political uncertainty – likely to affect investor confidence – and persistently high interest rates that push prices down. Moreover, the commercial real estate market is particularly exposed to international flows. The first half of 2025 saw a decline in the share of foreign investment, which accounted for only 30% of the volumes committed to French commercial real estate, compared with 44% in the last quarter of 2024. This decline was particularly evident in the logistics segment at the beginning of the year, with foreign investment accounting for only 56% of volumes in the first quarter of 2025, compared with 79% for the whole of 2024.⁷⁹

Chart 1.34: Île de France office prices and corporate real estate investment volume

x: time/y: [lhs] January 2020 = 100; [rhs] (EUR billions)



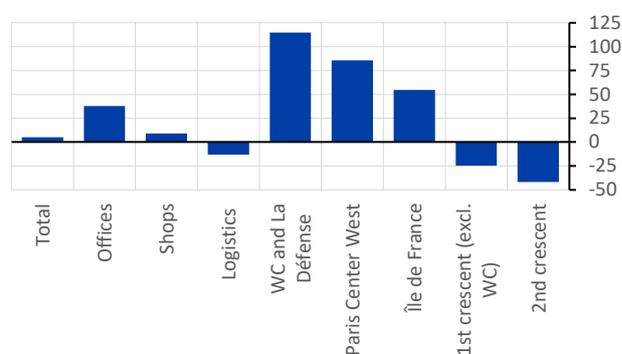
Sources: Immostat, BNP Paribas Real Estate.

Note: Investment volumes for the whole of France, including offices, retail, logistics and hotels.

Most recent value: Q3 2025.

Chart 1.35: Growth in first three quarter investment volumes from 2024 to 2025

x: zones/y: (%)



Sources: BNP Paribas Real Estate, Cushman & Wakefield, Immostat.

Note: WC corresponds to the Western Crescent region of Paris. The breakdown by geographical area includes all asset classes.

The liquidity risk on real estate funds has continued to ease after a period of severe tensions that began at the end of 2022. While these tensions drove certain funds to adopt liquidity management tools and to sell financial assets, asset disposal plans were rarely implemented. The possibility of massive capital outflows depends greatly on the type of fund in question. Open-ended funds are most at risk, as investors – both individual and institutional – can sell their units at any time. These outflows, which can be massive and synchronised, may push funds to make forced sales of their real estate assets. At the end of June 2024, the *Autorité des marchés financiers* (AMF – French Financial Markets Authority) considered 69% of French retail funds to be closed-ended funds in practice.⁸⁰ In this case, redemptions are only possible in the event of new subscriptions or are limited by capping mechanisms, known as gates.⁸¹

Thus, two main types of open-ended funds are the focus of most of the liquidity risk: real estate collective investment funds (*organismes de placement collectif immobilier* or OPCIs) and real estate investment companies (*sociétés civiles immobilières* or SCIs) marketed via unit-linked life insurance products. These funds

⁷⁸ Developing a price index is difficult due to the low number of transactions and the wide variety of commercial real estate properties. Due to the greater liquidity and homogeneity of the Île de France office market, their average price is often used as a benchmark.

⁷⁹ Source: Cushman & Wakefield, Investment Marketbeat Reports.

⁸⁰ AMF (2025), *Cartographie des marchés et des risques 2025*, 24 June. Closed-ended retail funds in practice correspond to French real estate investment companies (SCPIs). A partner may exit an SCPI by submitting a withdrawal request or by selling their shares to a third party. In the case of a withdrawal request, the management company redeems the shares by offsetting them against funds from new subscriptions. Unlike a sell order, this does not have a validity period.

⁸¹ The amount of redemptions is then capped at a very small proportion of net assets, which severely limits capital outflows. The fund, which is open in theory, is then said to be closed in practice.

have recorded outflows since the third quarter of 2022 (see Chart 1.36). In the second quarter of 2025, redemption requests appeared to stabilise, with outflows from unit-linked SCIs and OPCIs representing 0.3% and 1.9%, respectively, of net assets.

These open-ended funds mainly used three methods to cope with the capital outflows that began in the third quarter of 2022:

- **Activating liquidity management tools to limit the volume of redemptions.**⁸² The AMF reports that more than 99% (in terms of assets under management) of OPCIs had gates in operation at the end of 2023, compared with only one-third at the end of 2022.⁸³ At the end of March 2025, the AMF counted ten real estate funds that had activated a liquidity management tool for a total outstanding amount of approximately EUR 9 billion.⁸⁴
- **Selling listed assets to meet investor redemption requests.** In order to meet redemption requests, 5% of an OPCI's holdings are legally required to be liquid assets⁸⁵ (mainly Treasury securities, money market collective investment schemes [*Organismes de placement collectif en valeurs mobilières* or OPCVMs], OECD member state bonds and sight deposits). Maintaining a minimum level of liquid assets reduces the risk of forced sales and contributes to the stability of the financial system as it prevents managers from having to sell real estate at discounts, which would amplify tensions in the property market. Nevertheless, faced with a large volume of redemption requests, OPCIs had to sell not only their liquid assets, but also non-money-market OPCVM units (mainly equity and bond funds) and property company shares (see Chart 1.37).⁸⁶
- **Preparing real estate asset disposal plans.** This is a last resort as it exposes funds to forced sales at a discount. Sales of this type mainly occur in cases where liquidity management tools have been adopted late and liquidity reserves are exhausted. At the end of 2024, 6 of the 23 OPCIs operating in the third quarter of 2022 reported that they had initiated disposal plans.⁸⁷ However, the sale of real estate assets remained limited, as these six funds accounted for only 9.5% of total OPCI net assets in the third quarter of 2022, when the wave of redemptions began.

⁸² Real estate funds have exclusively adopted gates rather than other liquidity management tools (swing prices, anti-dilution levies, etc.), which are less suited to the specific characteristics of the real estate market. Darpeix (P.-E.), Rosspopoff (B.) and Scaufaire (J.) (2024), *Évolution de l'adoption des outils de gestion de liquidité dans les fonds français*, AMF, November.

⁸³ In November 2022, the AMF announced that collective investment funds had to comply with the obligation to introduce mechanisms to cap redemptions by 31 December 2023 at the latest, or justify their absence.

⁸⁴ However, for products marketed through a life insurance contract, savers can still carry out redemptions and arbitrage transactions. The liquidity risk then mainly falls to the insurer. In this case, life insurers are authorised to pass on the suspension for arbitrage on these unit-linked real estate funds (Article L. 131-4 of the Insurance Code) and apply redemption penalties (Decree No. 2024-539 of 12 June 2024).

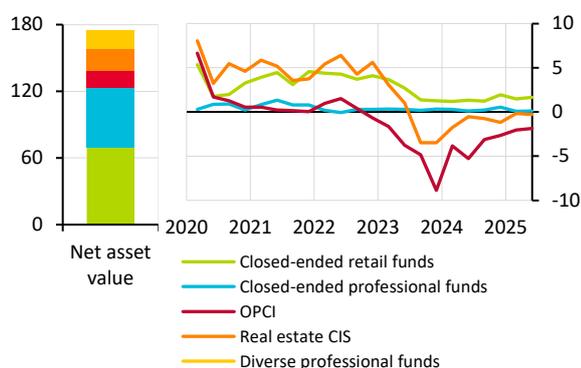
⁸⁵ Article L. 214-37 of the French Monetary and Financial Code.

⁸⁶ The proportion of non-real estate assets may not exceed 40% of total assets, which, taking into account liquidity requirements, limits holdings of non-money market OPCVMs to 35% of gross assets. In addition, unlisted real estate assets must account for at least 51% of gross assets.

⁸⁷ Disposal plans announced in the funds' 2023 and 2024 annual reports, which are explicitly intended to meet redemption requests.

Chart 1.36: Assets under management and quarterly net inflows by fund type

x: assets/y: [lhs] (EUR billions); [rhs] (% of net assets)

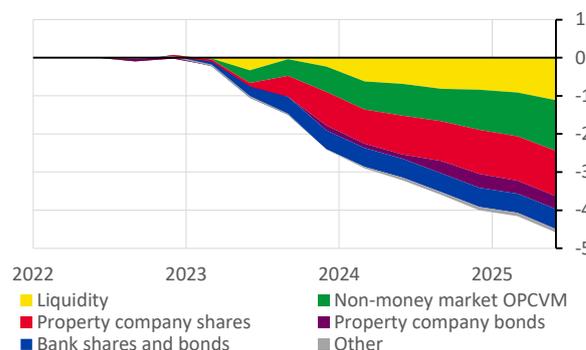


Sources: Association française des Sociétés de Placement Immobilier (ASPIM), CSDB, Banque de France.

Note: Left-hand scale: assets in June 2024; Right-hand scale: Closed-ended retail funds correspond to SCPIs. Professional closed-ended funds correspond to organismes professionnels de placement collectif immobilier (OPPCIs – professional real estate collective investment schemes), almost all of which have redemption capping mechanisms with very low trigger thresholds (often 0.1% of net assets). Most recent value: Q2 2025.

Chart 1.37: Cumulative net purchase of listed assets by OPCIs since January 2022

x: time/y: (EUR billions)



Sources: CSDB, OPC titres, Banque de France.

Note: Transaction volumes are calculated on the basis of reported outstanding amounts, taking into account changes in asset prices. Most recent value: Q2 2025.

Residential real estate is continuing its gradual recovery

The gradual recovery of the residential real estate market has continued. After an orderly but substantial downturn in the market following the interest rate hikes that began at the beginning of 2022, the main indicators now point to a recovery, albeit at a slower pace than expected. In the third quarter of 2025, seasonally adjusted existing-home prices rose by 0.7% year-on-year, but remained stable compared with the previous quarter (see Chart 1.38). Conversely, the volume of transactions in the existing-home market continued its upward trend that began in August 2024. Similarly, the new-build housing market, which was severely affected by the rise in interest rates, has also shown signs of improvement. The cumulative number of house building starts over 12 months rose to 263,000 in November 2025 (up 8% compared with the May 2025 low, but 30% below the average observed between 2000 and 2019).

Housing loan production continued to follow an overall positive trend, while interest rates have stabilised.

The volume of new housing loans to individuals excluding renegotiations and adjusted for seasonal variations, reached EUR 12.3 billion in November 2025 (up 35% over the first 11 months of 2025 compared to 2024; see Chart 1.39). This increase has resulted in a positive annual growth rate in total outstanding housing loans to retail customers since June 2025 (up 0.1% in November). The average interest rate on these new loans, excluding renegotiations, stabilised at 3.10% in November – around 2 percentage points above its level prior to the cycle of monetary tightening. Its momentum is notably constrained by the interest rate on 10-year French government bonds, which serves as a benchmark for setting rates on new loans and which fluctuated around 3.5% between August and December 2025.

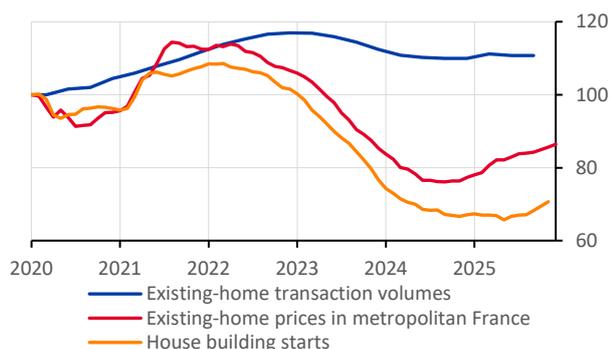
The risks associated with household property loans remain limited. The unemployment rate continues to be stable and historically low (7.7% in the third quarter of 2025). According to the Banque de France's macroeconomic projections,⁸⁸ the unemployment rate is expected to rise slightly, peaking at 7.8% in 2026, before falling back to 7.6% in 2027. Amid macroeconomic and political uncertainty, households are setting

⁸⁸ Banque de France (2025), *Macroeconomic projections – December 2025*, 19 December.

aside precautionary savings. Their savings rate therefore rose to 18.4% of disposable income in the third quarter of 2025, close to its highest level since 1980, excluding the Covid period. The average debt-service-to-income ratio for new housing loans, excluding renegotiations, increased slightly to 30.6% in November 2025, which is lower than the level observed in November 2023 (31.0%).⁸⁹ However, the HCSF measure⁹⁰ capping the debt-service-to-income ratio at 35% and the credit period for new loans at 25 years⁹¹ will ensure that credit standards do not get out of control and that household debt remains sound and sustainable.

Chart 1.38: Prices and transactions in the existing-home market, new house building starts

x: time/y: January 2020 = 100



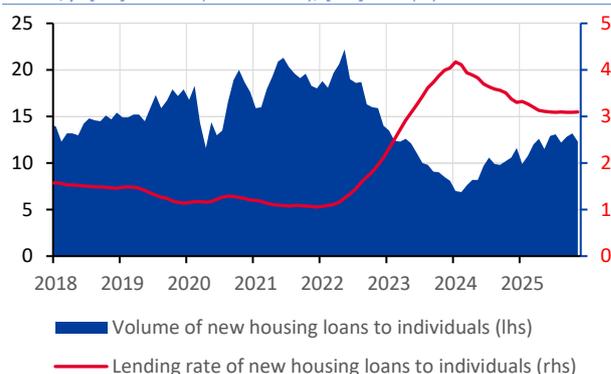
Sources: IGEDD, INSEE.

Note: Prices adjusted for seasonal variations. Cumulative volumes over 12 months.

Most recent value: Q3 2025 for prices, December and November 2025 for transactions in the existing-home market and house building starts.

Chart 1.39: Lending rate and volume of new housing loans to individuals

x: time/y: [lhs] volume (EUR billions); [rhs] rate (%)



Sources: Banque de France.

Note: Loans excluding renegotiations. The interest rate is the narrowly defined effective rate.

Most recent value: November 2025.

1.4 Banks and insurers remain resilient in an uncertain environment

Despite the increased credit risk, French banks have reported excellent results since the beginning of the year and have a sound prudential position

Despite the reduction in the ECB's key interest rates since early 2025, geopolitical, economic and political uncertainties have led customers to adopt a wait-and-see attitude. As a result, outstanding loans to NFCs and households have grown only slightly in nine months, by 0.5% to EUR 1,849 billion and 0.2% to EUR 2,033 billion, respectively, compared with the end of 2024. However, despite this environment, leveraged loan issuance⁹² picked up in the first half of 2025, with EUR 32.1 billion issued, compared with an average of EUR 25 billion over the previous six years. Outstanding loan amounts thus reached EUR 200.1 billion in the first half of 2025, i.e. 11.1% of the NFC loan portfolio, with senior debt accounting for the bulk of these outstanding amounts (95.1%). At the same time, the proportion of covenant-lite or non-covenant loan issuance increased by 10 percentage points to 73.3%.

The economic slowdown has been weighing on the IFRS 9 classification of banking assets and is reflected in the change in the share of stage 2⁹³ loans to NFCs and, to a lesser extent, stage 3⁹⁴ loans, up 54 basis points and 21 basis points, respectively, for the NFC portfolio. This deterioration is more pronounced for the SME

⁸⁹ Monthly monitoring of housing loan production as part of the CREDITHAB support scheme.

⁹⁰ Decision HCSF-2021-7 on housing loan credit standards of 29 September 2021, amended by Decision HCSF-2023-2 of 29 June 2023 and Decision HCSF-2023-6 of 18 December 2023.

⁹¹ The ceilings on the debt-service-to-income ratio and the credit period are subject to a margin of flexibility limited to 20% of total loan production, within which the loans granted may deviate from either criterion.

⁹² Leveraged loan data for the five largest French banks.

⁹³ Underperforming loans that have seen a significant increase in credit risk.

⁹⁴ Credit-impaired loans.

loan portfolio, where the share of stage 3 loans increased by 34 basis points to 4.83%, and for leveraged loans (up 30 basis points to 6.7%). This trend is in contrast to the portfolio of loans to NFCs held by other banks in the Single Supervisory Mechanism (SSM), where the share of stage 2 loans and stage 3 loans decreased by 110 basis points and 17 basis points, respectively. The improved situation of SSM bank stage 2 loans derives from two portfolios: loans to large corporations and loans secured by commercial real estate. The latter sub-portfolio also recorded a significant reduction in the share of stage 3 loans, which declined by 26 basis points to 4.38% (see Chart 1.40). In the household portfolio, the share of stage 2 loans and stage 3 loans has been rising since the end of 2024 (up 28 basis points to 9.56% and 8 basis points to 2.24%, respectively; see Chart 1.41). Consequently, the cost of risk of French banks is increasing in terms of volume, even though it remains relatively stable at 29 basis points when measured against total assets and is still lower than that of their euro area peers, which stands at 39 basis points.⁹⁵

Chart 1.40: Share of stage 2 and stage 3 loans to NFCs

x: time/y: share of loans (%)



Source: FINREP reporting.
Most recent value: September 2025.

Chart 1.41: Share of stage 2 and stage 3 loans to households

x: time/y: share of loans (%)



Source: FINREP reporting.
Most recent value: September 2025.

After reporting historically high revenues in 2024, the six main French banking groups⁹⁶ posted significant revenue growth in the first nine months of 2025. Growth in net banking income (NBI) of 6.6% to EUR 125.1 billion was mainly driven by increased income from market activity (up 14% to EUR 18.2 billion), while the net interest margin (NIM) recovered, up 4.6% to EUR 49.9 billion. Commission income remained at a historically high level of EUR 43.5 billion.

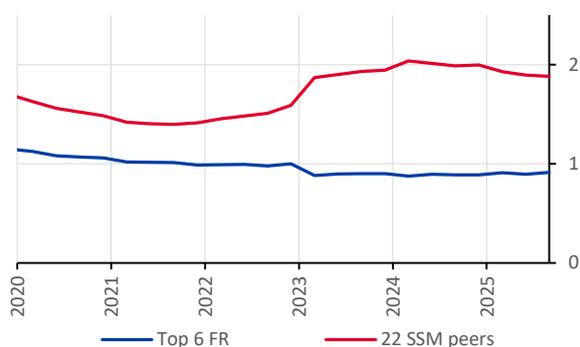
The improvement in the NIM was mainly due to a favourable interest rate effect, with the average cost of funds falling faster than the return on assets. The NIM's share in the NBI remains significant at 40% but lower than that of 22 comparable banks in the SSM (65%). Demand for new lending from businesses and households increased, stimulated by lower interest rates, leading to a slightly positive volume effect (see Chart 1.42). Thus, in one year, the net interest margin divided by interest-bearing assets of French banks rose by 3 basis points, while falling by 11 basis points for banks in the SSM. The difference from other euro area banks reflects both a structural effect, linked to balance sheet compositions, and a temporal effect, related to the speed of interest rate transmission (see Chart 1.43).

⁹⁵ The total cost of risk is calculated on a scope broader than just household and NFC loan portfolios.

⁹⁶ BNP Paribas, Société générale, Groupe Crédit agricole, Groupe BPCE, Groupe Crédit mutuel and La Banque postale.

Chart 1.42: Change in NIM divided by interest-bearing assets

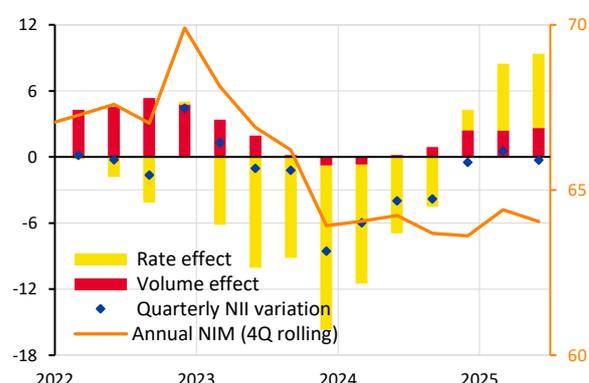
x: time/y: NIM in % of interest-bearing assets



Source: FINREP reporting.
Most recent value: September 2025.

Chart 1.43: Change in the annualised NIM of the six main French banks since December 2021

x: time/y: [rhs] volume and rate effects (EUR billions); [lhs]: quarterly or annual change (%)



Source: FINREP reporting.
Most recent value: June 2025.

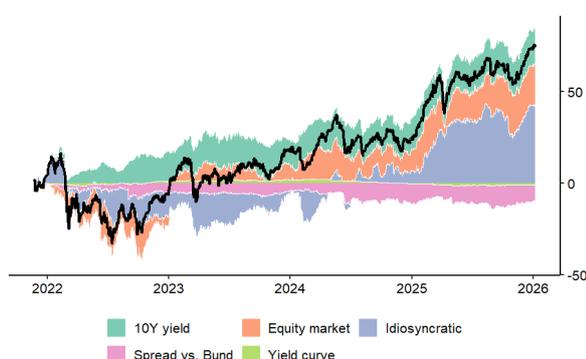
Meanwhile, French banking groups have continued to benefit from more structural factors supporting improved profitability. Income growth has offset the higher operating expenses (up 3.9% to EUR 82.5 billion) and has absorbed a more substantial increase in the cost of risk (up 9.9% to EUR 9.5 billion) stemming from both NFC and household loan portfolios. Despite the exceptional corporate tax levy set down in the 2025 Budget Act, net income over the first nine months of 2025 rose by 9.1% to EUR 30.3 billion. In addition, operational efficiency and profitability indicators improved: the annualised cost to income ratio fell by 1.7 percentage points to 66%, while the annualised return on assets (ROA) rose by 2 basis points to 0.45% and the annualised return on equity (ROE) increased by 35 basis points to 7.31%.

French bank equities rose sharply in 2025. The price-to-book ratio of shares in the three listed French banks⁹⁷ improved greatly in 2025, rising from 47% on 1 January to 75% at the end of December, despite the political and economic instability. The sector index was buoyed by the normalisation of interest rates and improved earnings growth prospects, and significantly outperformed the domestic market (up 173% compared with 47% between October 2022 and the end of 2025). Financial analysts forecast earnings growth of almost 9% per year from 2026 to 2029, which represents a significant improvement over the four-year earnings outlook established in 2022. Lastly, although the political uncertainty and the widening of the OAT/Bund spread hampered performance and generated volatility, they were not enough to undermine the upward trend (see Chart 1.44). French banks have also benefited from favourable financing conditions on the bond market, with tight credit spreads. The effect of wider French sovereign spreads on French banks' credit spreads has been contained since 2024, with a weak correlation, even if it tends to rise temporarily during periods of increased volatility on the sovereign debt market (see Chart 1.45).

⁹⁷ BNP Paribas, Société générale and Crédit agricole.

Chart 1.44: Breakdown of the performance of shares issued by French banks

x: time/y: cumulative performance (%)



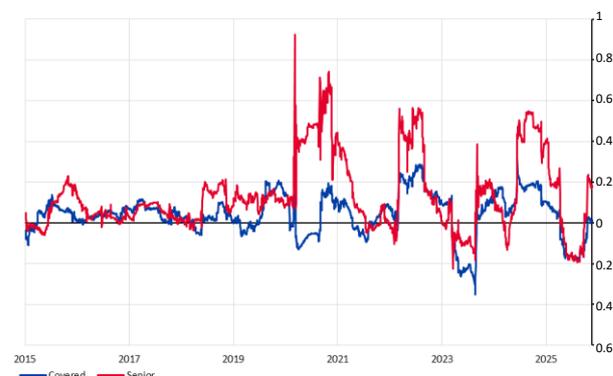
Sources: LSEG WIB; Banque de France calculations.

Note: The sensitivity of the daily performance of the French banking share index to (i) domestic market performance, (ii) changes in the 10-year rate, (iii) the OAT/Bund spread and (iv) the yield curve (10 years - 2 years) is estimated using linear regression for the 2022-25 period. The cumulative performance of the banking index is then broken down according to the change in each of these components. The idiosyncratic component represents the unexplained portion, which is particularly dependent on banking performance.

Most recent value: 31 December 2025.

Chart 1.45: Correlation between the 10-year OAT/Bund sovereign spread and the spread on the covered and senior bank debt of French banks

x: time/y: unit



Source: LSEG WIB, Iboxx bond indices.

Note: The correlation is calculated based on the daily variation in spreads over a rolling 120-day period.

Most recent value: 31 December 2025.

The regulatory ratios of French banks, incorporating the new provisions of Capital Requirements Regulation 3 (CRR3) since early 2025, remain solid

The six main French banking groups maintain a high degree of solvency, supported by the level of their own funds and their margins relative to requirements. During the first three quarters of 2025, the Common Equity Tier 1 (CET1) solvency ratio remained stable at 15.5%. The stabilisation of regulatory requirements – with the exception of regular changes to Pillar 2 requirements (P2R) and the countercyclical capital buffers (CCyB) implemented in other jurisdictions – and setting aside a portion of income as reserves have enabled French banks to have a comfortable CET1 capital headroom of 4.7 percentage points, higher than that of their European peers (4.3 percentage points; see Chart 1.46), despite a mix of heterogeneous situations with margins ranging from 1.8 percentage points to 8.2 percentage points.

The leverage headroom of the six main French banking groups amounted to 1.6 percentage points in September 2025. Leverage requirements stabilised in 2025, following the tightening of regulatory requirements for leveraged positions in 2023, linked to the introduction of the leverage buffer for global systemically important institutions, and then the introduction of Pillar 2 requirements in 2024. The leverage headroom of their European peers was higher than that of French banks, at 2.3 percentage points.

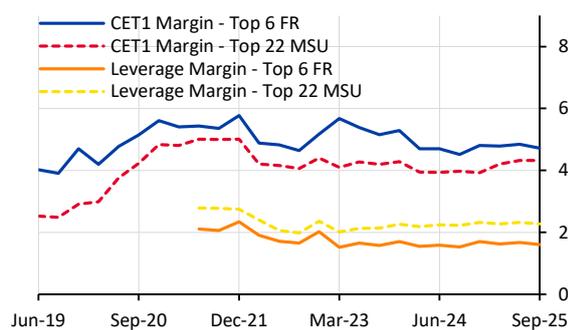
The liquidity ratios of French banks remained high and above regulatory thresholds. The average short-term liquidity coverage ratio (LCR) over 12 months (see Chart 1.47) and the net stable funding ratio (NSFR) of the six main French banking groups stabilised in September 2025 at 142.8% and 114.2%, respectively, following the repayment of targeted longer-term refinancing operations (TLTROs) over the past few years. Their USD liquidity ratios were satisfactory⁹⁸ and better than at the end of 2024. Excluding financing for high-quality

⁹⁸ The regulations on currency liquidity ratios do not impose any binding requirements, but require banks to ensure that they hold sufficient assets to meet their liabilities in each major currency.

liquid assets (HQLA), overall surplus funds amounted to USD 150 billion. At the end of September 2025, an analysis of USD maturity dates showed a positive aggregate net liquidity position for the next 12 months. According to their financial statements, French banks had anticipated part of their 2025 annual funding plans as early as 2024, with general continuity in their issuance programmes, mainly in euro, but also in USD and other foreign currencies that figure less prominently in their balance sheets (such as GBP or JPY). At the end of September 2025, at least 90% of these funding plans had already been implemented for the main French banks using market financing.

Chart 1.46: CET1 capital headroom in the risk-based solvency framework and T1 capital requirements in the regulatory leverage framework

x: time/y: headroom



Source: COREP reporting.

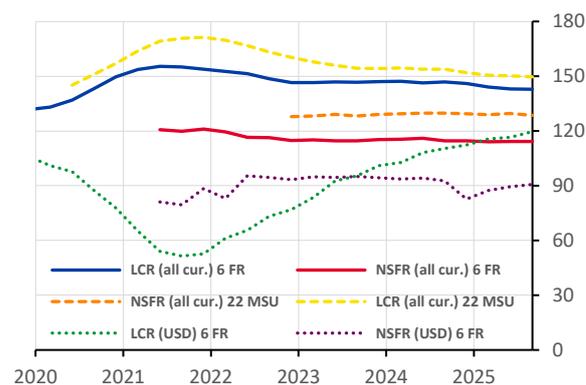
Note: CET1 capital headroom under the risk-based solvency framework on risk-weighted assets corresponds to the distance to the maximum distributable amount (MDA) threshold, comprising individual Pillar 1 and individual Pillar 2 requirements, the capital conservation buffer, the buffer for global systemically important banks (G-SIBs) or other systemically important banks (O-SIBs), the countercyclical buffer (CCyB), the systemic risk buffer, and the amounts of CET1 used to cover Tier 1 and overall capital requirements.

T1 capital requirements for leveraged positions include Pillar 1, individual Pillar 2 and G-SIB requirements.

Most recent value: September 2025.

Chart 1.47: Regulatory liquidity ratios in all currencies and USD liquidity ratios

x: time/y: liquidity ratios



Source: COREP reporting.

Most recent value: September 2025.

French banks' exposure to French government debt has increased but remains limited relative to the total balance sheet

The main French banks have tended to increase their exposure to French sovereign debt (an 11% increase between September 2024 and September 2025), particularly through the acquisition of debt securities (up 22%), a trend that is part of a more general shift towards expanding sovereign debt holdings.⁹⁹ Their exposure to French government debt has increased but remains relatively limited, at 4.1% of the balance sheet total,¹⁰⁰ compared with SSM banks whose exposure to domestic sovereign securities amounted to 4.5% of the balance sheet total. Furthermore, the majority of these exposures are recognised at amortised cost, which renders the profit and loss account insensitive to price fluctuations. Given these limited exposures, French banks should be able to absorb significant market fluctuations in French sovereign debt. The risk to the banking sector

⁹⁹ The six main French banks increased their sovereign bond holdings by 16% across all jurisdictions and currencies outside France.

¹⁰⁰ The total balance sheet of the main French banking groups amounted to EUR 8,972.5 billion, of which mainly 12% is debt securities and 61% is loans. Deposits accounted for 63% of liabilities, and issued debt securities accounted for 18%.

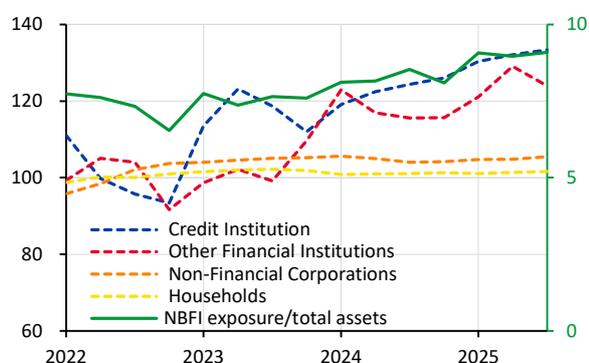
associated with the situation of France's public finances is therefore more macroeconomic¹⁰¹ than strictly financial.

French banks' exposure to other financial institutions is increasing

The rise in interest rates has led to a rapid increase in the exposure of the six main French banking groups to other financial institutions – both banks and non-banks. Over the same period, their exposure to NFCs and households has grown more slowly (see Chart 1.48). At the end of September 2025, their exposure to NBFIs amounted to EUR 815 billion, comprised of EUR 705 billion in loans and EUR 110 billion in securities. However, the significance of these outstanding amounts in French banks' balance sheets remains moderate, as they represent 9.1% of total assets, compared with 21% for NFCs and 22% for households.

Chart 1.48: Changes in French banking groups' asset exposure by counterparty type

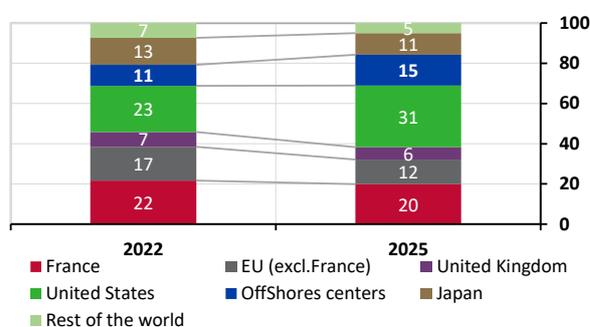
x: time/y: [lhs] 2022 average = 100; [rhs] exposure/total balance sheet (%)



Source: FINREP reporting.
Most recent value: September 2025.

Chart 1.49: Geographical breakdown of loans granted to other financial institutions by the six main French banking groups between 2022 and September 2025

x: time/y: share of the portfolio of loans to other financial institutions (%)



Source: FINREP reporting.
Most recent value: September 2025.

There has been an increase in bank loans granted by French banks to foreign non-bank financial institutions.

While the share of loans to institutions domiciled in France decreased slightly between 2022 and September 2025, falling from 22% to 20%, the share of loans to US-resident entities grew significantly, from 23% in 2022 to 31% in 2025 (see Chart 1.49). Furthermore, the weight of offshore centres¹⁰² has increased, from 11% in 2022 to 15% in 2025. Since 2023, loans to other financial institutions in European Union countries (excluding France) have accounted for around 12% of the portfolio, with Luxembourg, Italy and Ireland the most represented countries.

Supervisors are alert to the growing interconnections between banking and non-banking financial institutions. As such, certain initiatives are worth mentioning:

- In parallel with the European Banking Authority's (EBA) EU-wide bank stress test carried out in 2025, the Single Supervisory Mechanism (SSM) conducted an analysis of counterparty credit risk (CCR).
- 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) are currently conducting an exploratory exercise to better understand the factors involved in the transmission and amplification of market shocks through interconnections between banks and NBFIs, and to assess the resilience of the financial system in this context (see Box 1.5).

¹⁰¹ Impact of the deteriorating situation on the real economy: increased uncertainty, possibly followed by forced and costly fiscal consolidation.

¹⁰² Offshore centres include the Cayman Islands, Bermuda, the Bahamas, the Virgin Islands, Jersey, Guernsey, the Isle of Man, Hong Kong and Singapore.

Box 1.4: Bank development of synthetic securitisation: prospects and challenges to financial stability

By Louis-Edouard Genty, Clara Pons Mouréou, Edith Stojanovic and Floris Van Dijk

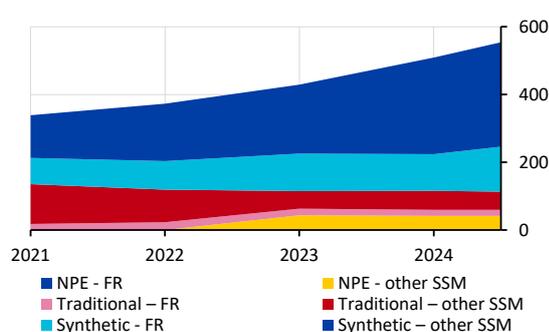
Securitisation is a supervisor-regulated risk and capital management tool

Securitisation is a financial mechanism that allows banks to transfer assets or part of the risk associated with them, with the objective of managing credit risk and regulatory capital. The regulatory reforms implemented since 2010 have strengthened the securitisation market, notably by ensuring a better alignment of interests between originators and investors¹⁰³ and greater transparency. Certain transactions – depending on compliance with criteria attesting to significant risk transfer (SRT)¹⁰⁴ and their recognition by the competent prudential supervisor – allow the bank securitising its assets to apply a capital charge corresponding to the risk retained. The capital requirement reduction enabled by these transactions for non-French banks in the euro area averages 45.9 basis points of the CET1 solvency ratio (EUR 1 billion) and 36.7 basis points (EUR 1.5 billion) for the five main French banks. It is important to distinguish between two types of transaction (see Appendix): (i) traditional securitisations, which involve transferring assets off a bank's balance sheet to a special purpose vehicle that finances their acquisition by issuing securities, and (ii) synthetic securitisations, under which only the credit risk of the assets can be transferred, without selling them, using derivatives or guarantees.

The main euro area banks¹⁰⁵ have reported dynamic SRT securitisation issuance activity, with a clear preference for synthetic securitisation. Overall, the value of SRT securitisation issuance doubled between 2021 and 2024 to EUR 191 billion, 91% of which were synthetic. This trend largely continued into the first half of 2025, with EUR 117 billion in issuance as at the end of June, bringing the total outstanding amount of SRT securitisations issued by the banks in our sample to EUR 558 billion (see Chart 1).

Chart 1: Total outstanding SRT-securitised receivables by type of transaction

x: reporting period/y: outstanding amounts (EUR billions)

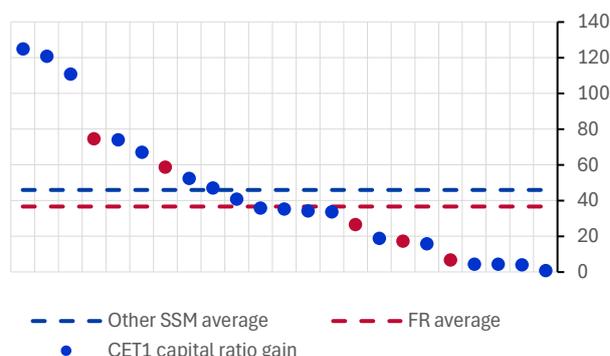


Source: COREP reporting.

Note: Outstanding amounts include all tranches, including those not retained by the institution. NPE refers to non-performing exposures. Most recent value: Q2 2025.

Chart 2: Estimated CET1 capital ratio gains related to SRT (synthetic and cash) securitisations of 23 euro area banks

x: institution/y: CET1 ratio gains (basis points)



Source: COREP reporting.

Note: Data considered at 31 December 2024.

¹⁰³ Under the European regulatory framework, the originator, sponsor or original lender of cash and synthetic transactions shall retain a net economic interest in the securitisation of not less than 5%.

¹⁰⁴ In this analysis, the concept of SRT corresponds to significant risk transfer, including both cash and synthetic securitisations, unlike the accepted meaning of synthetic risk transfer, which covers only synthetic securitisations.

¹⁰⁵ This box focuses on the role as originators of SRT securitisations of the most active euro area banks, based on a total sample of 23, including five French banks.

Synthetic securitisation: a lever for operational efficiency that raises challenges in terms of risk monitoring

Synthetic securitisation offers advantages for banks and investors. Synthetic securitisation – compared to traditional securitisation – reduces banks’ operational costs as it does not require the transfer of assets off the balance sheet or the creation of a special purpose vehicle. These transactions provide banks with credit risk coverage while keeping all the receivables on their balance sheets, thereby allowing banks to maintain the commercial relationships established with borrowing companies. Lastly, these transactions are generally quicker and more flexible to implement. From an investor's perspective, securitised products generally allow for portfolio diversification and exposure to a specific level of risk, while benefiting from the bank's expertise in loan origination and monitoring¹⁰⁶ and offering attractive returns. Synthetic securitisations are generally privately negotiated transactions, which are by nature less transparent than public transactions, but under European regulations banks are required to provide investors with required information on the structure, the portfolio of underlying assets and the performance of the transactions. The size and duration of synthetic securitisation transactions can be calibrated according to investor preferences, unlike traditional securitisation, which is based on the assets transferred.

The growth in synthetic securitisation may, however, carry risks. In the case of synthetic securitisations, a mismatch may arise between the maturity of the underlying loans, which remain on the balance sheet, and that of the securitisation transaction, which could lead to higher capital requirements if the bank is unable to renew the transactions at maturity. Furthermore, a strong appetite for risk on the part of investors could result in a moral hazard effect, prompting banks to relax credit standards.¹⁰⁷ Consequently, lending could become more procyclical and more dependent on mainly non-bank players that provide protection, such as credit funds, hedge funds or pension funds. This risk can be amplified in cases where synthetic securitisation investors finance their positions through repo transactions with banks. However, it is still difficult to measure the volume of these financing transactions. Currently, the level of capital relief does not suggest that banks are dependent on synthetic securitisation for the management of their credit risk or capital requirements. Furthermore, the types of risk specific to these transactions, such as maturity mismatch risk, are monitored by regulatory supervisors and appear to be contained. Lastly, the risk of moral hazard to lending standards appears to be limited for the time being, as evidenced by the decline in the default rate of the outstanding loans underlying SRT securitisations (see Appendix). In a growing market, it is essential that banks and investors continue to carefully manage risk, while an improvement in the information available on investors would enable supervisors to more closely monitor the interconnections between participants.

An appropriate regulatory framework is required for the orderly development of securitisation

In June 2025, the European Commission published a set of proposals to amend the regulatory framework governing securitisation transactions in Europe, with a view to facilitating the use of securitisation in the European Union while continuing to preserve financial stability. These proposals come against a backdrop of limited, though increasing, institutional use of securitisations since the major financial crisis of 2007-09, with the policy objective of revitalising securitisation in order to increase the borrowing capacity of banks as part of the broader strategy to develop a Savings and Investments Union.¹⁰⁸ In line with the position paper published in February 2025,¹⁰⁹ the Banque de France and the ACPR support this reform, which increases the risk sensitivity of the prudential framework while preserving the safeguards that ensure

¹⁰⁶ Servicing is generally provided by the originating bank, including in the case of traditional securitisation. It may be delegated to a third party, typically, for example, institutions specialising in non-performing loans (NPLs) in the case of NPL securitisation.

¹⁰⁷ Osberghaus (A.) and Schepens (G.) (2025), “Synthetic, but How Much Risk Transfer?”, 1 February.

¹⁰⁸ Initiative aimed at strengthening the economic competitiveness of the European Union by steering more funding and capital towards innovation, the green and digital transitions, and strategic sectors such as defence.

¹⁰⁹ Banque de France, ACPR, [All Hands on the Green Deck](#).

alignment of interests along the value chain,¹¹⁰ by seeking the operational simplification of some of these safeguards and by improving the supervisory capacity of the authorities only.

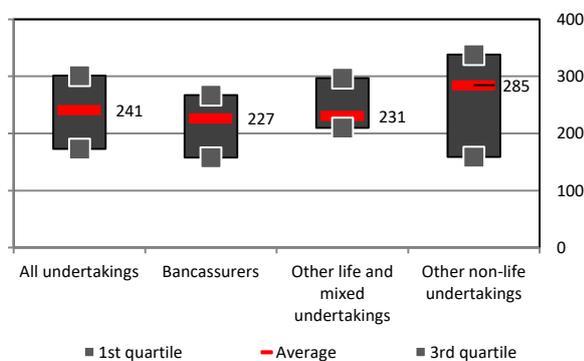
Exceptional life insurance inflows, a recovery in non-life insurance technical ratios and consistently robust solvency

The insurance sector confirmed its resilience in the first half of 2025, with a solvency position well in excess of regulatory requirements. In the life insurance sector, the retention of 2024's attractive revaluation rates, which continued to entice savers given the decline in the rates of interest paid on regulated savings accounts, as well as high household financial savings flows, led to record net inflows in 2025. In the non-life insurance sector, underwriting profitability continued to recover, driven by rapid premium growth coupled with a limited increase in claims. Insurers' asset allocation changed little during the half-year: the investment portfolio is diversified and US-dollar exposure is limited.

The average solvency of insurers rose slightly in the first half of 2025. Insurers hold surplus capital well in excess of capital requirements.¹¹¹ At the end of June 2025, the average solvency capital requirement (SCR) coverage ratio¹¹² stood at 241%, compared with 238% at the end of 2024. The increase was more pronounced for traditional insurers, whose solvency ratio rose by 7 percentage points during the half-year. The own funds levels of all insurers exceeded the regulatory minimum: 75% of insurers have a ratio of more than 170% while 25% have a ratio of over 300% (see Chart 1.50). Other non-life insurance undertakings display particularly significant disparities around an average ratio of 285%, while bancassurers, which have to be considered in the context of the conglomerate structure of the group to which they belong, show an average solvency capital requirement coverage ratio of 227%.

Chart 1.50: Distribution of the SCR coverage ratio, end-June 2025

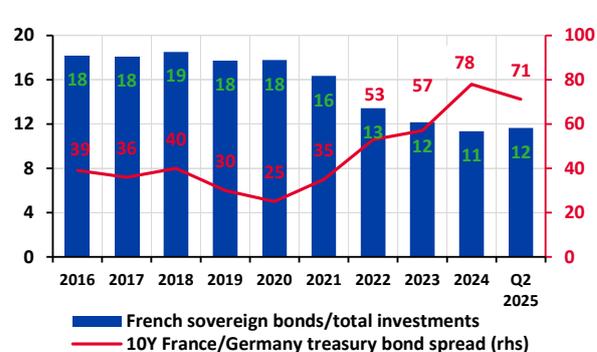
x: type of undertaking/y: 1st quartile, average and 3rd quartile (%)



Source: ACPR.

Chart 1.51: Share of French sovereign bonds in insurers' investments

x: time/y: [lhs] rate (%); [rhs] spread (basis points)



Source: ACPR.

Most recent value: Q2 2025.

The investment portfolio of French insurers remains diversified, and French sovereign bonds continue to be attractive. The low interest rate environment of the past years had put major constraints on the financial income of insurers, particularly bond coupons. Bonds accounted for around 60% of insurers' investments,¹¹³ with holdings mainly consisting of corporate bonds (28% at the end of June 2025), sovereign bonds (20%) and

¹¹⁰ Notably a ban on resecuritisation, increased requirements for transparency for originators and due diligence for investors, and prohibitions of cherry-picking of the underlying assets intended for securitisation.

¹¹¹ It is worth noting that capital requirements stood at EUR 195 billion at the end of June 2025.

¹¹² The solvency capital requirement (SCR) is the level of own funds needed for an insurance undertaking to meet its obligations over the next 12 months with a probability of at least 99.5%. It is calibrated to ensure that all the quantifiable risks to which the insurance or reinsurance undertaking is exposed are taken into consideration. The SCR coverage ratio is the ratio between eligible own funds and the SCR and must be at least 100%.

¹¹³ After applying the look-through approach to the assets of collective investment undertakings.

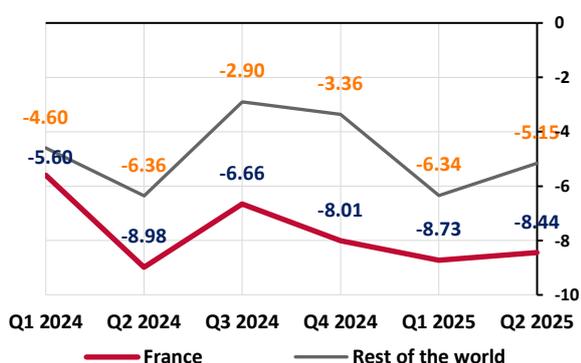
non-financial corporations (11%). Around 80% of these bonds were rated above A–, while the share of bonds with a sub-BBB– rating was only around 1%. French sovereign bond assets accounted for 12% of insurers' investments at the end of the first half of 2025, a slight increase compared with the end of 2024, following the decline associated with valuation effects in the wake of the 2022-23 interest rate rises (see Chart 1.51). While investment behaviour can differ from one institution to another, the attractiveness of French government bond assets remains undiminished. For the portfolio as a whole, the proportion of investments that can be easily and immediately converted into cash has stood at around 50%¹¹⁴ for several years. The proportion of alternative assets (real estate, structured finance, infrastructure, alternative funds, private equity, convertible and hybrid bonds, loans, etc.), which are potentially riskier and less liquid, amounted to 17%. These assets represent an attractive means of diversification for insurers offering long-term products such as life insurance and retirement plans (see Chapter 2). Lastly, French insurers' currency risk remains limited: all exposures combined, only a small proportion of their assets are invested in currencies other than euro (8% at the end of June 2025, largely unchanged from the end of 2024). Around two-thirds of this foreign currency exposure corresponds to US-dollar denominated investments.

The value of insurers' investment portfolios is sensitive to interest rate fluctuations, and particularly to spreads between France and Germany, such as those recorded since 2022 (see Chart 1.51). During the first half of 2025, long-term rates remained relatively stable. At the end of June 2025, French sovereign bonds showed unrealised capital losses of 8%, unchanged from the end of 2024, but still higher than those of foreign-issued sovereign bonds, which stood at 5% (see Chart 1.52). The bond portfolio as a whole still showed an unrealised capital loss, representing 3% of the total investment portfolio, slightly down from 4% at the end of 2024. However, unrealised capital gains were still recognised on equities, CIUs and real estate, resulting in an overall unrealised capital gain of 1%, which was also down slightly from the end of 2024 (see Chart 1.53). Nevertheless, half of life insurance undertakings recorded overall unrealised capital losses (not exceeding 3% in 25% of cases). Taking into account the reserves set aside by life insurers, which can be mobilised in the event that unrealised losses are realised, 75% of institutions show a positive wealth ratio,¹¹⁵ and half of them have ratios of more than 5%.

Today's higher interest rates also result in improved portfolio returns for insurers, which can reinvest maturing bonds in higher-yielding securities. These gradual improvements are reflected in an increase in the average return on life insurers' assets since 2023, following the almost continuous decline recorded during the period of low interest rates.

Chart 1.52: Unrealised capital gain/loss ratio for sovereign bonds, as a % of the acquisition value of each type of asset

x: time/y: (%)

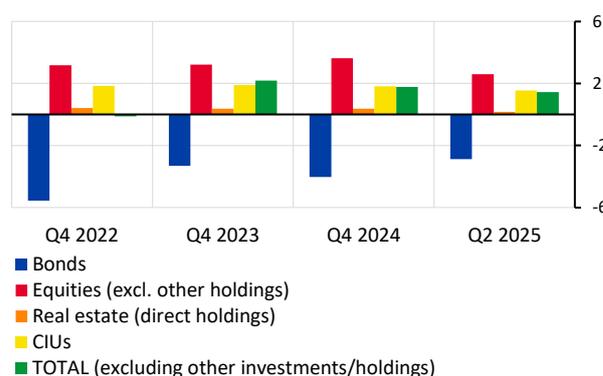


Source: ACPR.

Most recent value: Q2 2025.

Chart 1.53: Unrealised capital gain/loss ratio as a % of the acquisition value of total investments

x: time/y: (%)



Source: ACPR.

Most recent value: Q2 2025.

¹¹⁴ The calculation method for this ratio is inspired by the standards developed by the Basel Committee under the Basel III framework, which introduced a liquidity coverage ratio (LCR) whose purpose is to promote banks' short-term resilience to liquidity risk. This ratio, which is used for example by the European Insurance and Occupational Pensions Authority (EIOPA), represents the share of unencumbered high-quality liquid assets (HQLA) that may be converted into cash quickly and easily in private markets in the event of a liquidity crisis lasting three calendar days, relative to all investments.

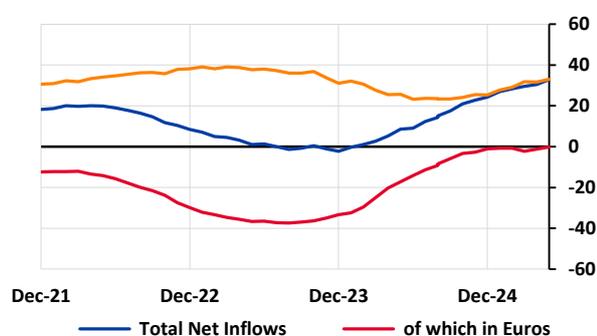
¹¹⁵ Unrealised gains or losses, capitalisation reserve and provision for profit sharing relative to the total investments at acquisition value.

Gross and net inflows into life insurance reached exceptional levels in 2025. In recent years, insurers have encouraged investment in unit-linked funds, where the market risk is essentially borne by retail investors, to offset the decline in returns on euro-denominated funds during the low interest rate period. While non-unit-linked (euro-denominated) products experienced virtually uninterrupted net outflows from the end of 2019 to the end of 2023, unit-linked products supported life insurance with positive net inflows throughout the period (see Chart 1.54). However, this trend has slowed significantly since the beginning of 2024. Net inflows reached a record high of EUR 33 billion in the first half of 2025, reflecting the combined effects of an increase in gross inflows, particularly for non-unit-linked products, and a decrease in redemptions of these products. It should be noted that in 2022 and 2023, the rise in interest rates on bank savings products and the increase in the cost of financing housing loans had led to an increase in life insurance policy redemptions.

The underwriting profitability of non-life insurers improved slightly in the first half of 2025 but remained subdued. After a sharp deterioration in 2022, the combined ratio for all non-life business lines has continued to improve, as it did in 2023, although it remains at a lower level than before 2022, reaching 96% at the end of June 2025, compared with 97% at the end of 2024 (see Chart 1.55). These changes mainly concern non-life activities excluding healthcare, which were severely affected in 2022 and early 2023 by the increase in the cost of automotive spare parts, home repair services and reinsurance. However, the impact of inflation can be felt in the longer term, particularly for long-term guarantees whose prices are not always revised annually, such as in construction, liability and death and disability insurance. The significant price increases for insurance services for individuals was well below general inflation in 2022 and 2023, before rising at a faster pace in 2024, contributing to the recovery in the underwriting profitability of these activities. If insurance rates continue to follow the same trend, however, concerns will arise as to the sustainability of this pricing dynamic, with the risk that some people may choose not to take out insurance given the costs involved.

Chart 1.54: Net flows into/out of life insurance (12-month cumulative)

x: time (months)/y: amount (EUR billions)

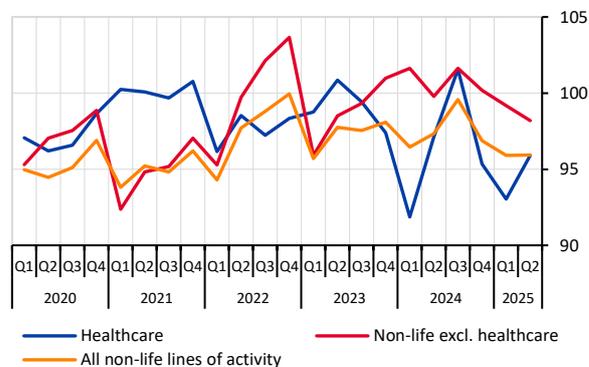


Source: ACPR.

Most recent value: May 2025.

Chart 1.55: Combined ratios

x: time/y: rate (%)



Source: ACPR.

Note: The combined ratio is the ratio of total costs (claims and expenses) to premiums, net of reinsurance. It assesses an activity's underwriting profitability and does not take financial results into account. The ratio is below 1 if the activity is profitable and above 1 if it is not.

Most recent value: Q2 2025.

Box 1.5: Modalities and scenario of the French financial system stress test conducted jointly by the Banque de France, the *Autorité de contrôle prudentiel et de résolution* and the *Autorité des marchés financiers*

By Amandine Araujo, Elise Bardet, Fabrice Borel Mathurin, Raphaël Bracquart and Lucille Collet

A recent series of events has highlighted the destabilising potential of the demand for liquidity, without the solvency of the players involved being necessarily called into question. The run on liquidity in March 2020, the collapse of Archegos in March 2021, tensions in the energy markets in 2021 and 2022, and pressure on UK sovereign bonds in 2022 are all pertinent examples. The common feature of these “systemic liquidity shocks” is the role played in amplifying the shocks of interdependencies between financial players and the externalities caused by the behaviour of each player seeking to protect themselves or respond to constraints (e.g. margin calls).

The exercise carried out by the Banque de France, the ACPR and the AMF is specifically designed to better understand the factors involved in the transmission and amplification of market shocks through interconnections between banks and non-bank financial intermediaries, and to assess the resilience of the financial system. The objective is to analyse systemic vulnerabilities, contagion mechanisms and amplification loops in a context of severe market stress. It is thus an exploratory exercise carried out to test the system as a whole. In particular, unlike traditional stress tests, this exercise does not focus on individual consequences and therefore does not result in passes or fails based on the level of a particular regulatory indicator; nor does it have any consequences in terms of individual supervision.

The exercise is based on a bottom-up approach constructed from data provided by the participating institutions. Starting from a common reference date (31 March 2025), the scenario chosen corresponds to a severe market shock analysed over a ten-working-day horizon within the existing institutional framework. The analysis focuses on three transmission channels: portfolio concentration (risk of fire sales – simultaneous sales of similar assets); liquidity interconnections (margin calls, collateral depreciation, credit line drawdowns, redemption of insurance policies or fund units); and cross-exposures (direct holdings of assets issued by other participants). The exercise is carried out in two rounds to capture any amplification effects: a first round, during which participants assess the impact of the initial scenario and define their management actions; followed, after the authorities have reconciled, aggregated and analysed the first round results, by a second round, in which the scenario may be adjusted to reflect the systemic consequences of the actions taken during the first round.

A top-down approach based on modelling of the system as a whole complements the bottom-up approach, facilitating a better analysis of results. The top-down approach enhances the bottom-up approach by facilitating an understanding of the feedback effects and possible second-round amplifications within the framework of a contagion model. The bottom-up approach means the relevance of the behavioural assumptions used in the top-down approach can be assessed.

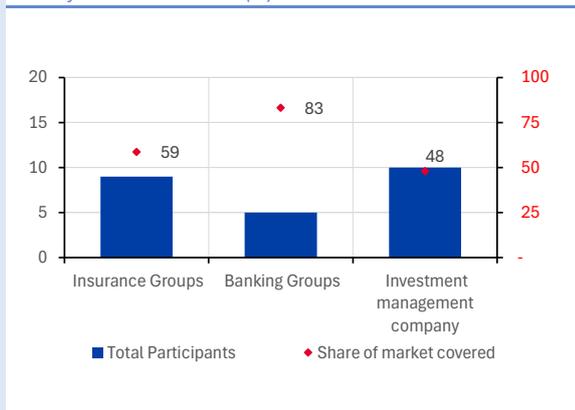
More than 20 French institutions are participating in the exercise on a voluntary basis. The selection of participants ensures broad coverage and is accurately representative of the diversity of the three sectors covered – banking, insurance and asset management funds and companies – and notably includes all French global systemically important banks (G-SIBs). The participating banks submit their data based on their banking activities on a consolidated basis. France’s main insurance groups are also represented, often through their life insurance arms, but also with the participation of certain significant non-life subsidiaries. France’s main management companies are also participating in the exercise, as all French and foreign funds with assets of more than EUR 500 million managed directly or through subsidiaries are included in scope.

The scenario chosen for the exercise is agnostic. The exercise is not based on an economic narrative from which the shocks would have been calibrated but is instead calibrated so that the shocks exceed the severity of the worst fortnight observed over the last 20 years while respecting certain relationships between asset

classes: rather than considering the consequences of a particular event, the exercise tests the structural resilience of the system. The scenario is severe but not extreme, developed in collaboration with the participants during dedicated workshops. It incorporates a dynamic of overreaction, with a shock of 125% on the third day stabilising at 100% on the tenth (see Chart 2), applied simultaneously to all risk factors. The market shocks include rising interest rates, widening credit spreads (reinforced by expert judgement), equity corrections and increased volatility (see Table 1). The modelling uses stochastic processes (Brownian, Ornstein-Uhlenbeck, Cox-Ingersoll-Ross) and a Student copula to capture dependencies at the tail of the distribution. Specific conditions are also added for insurers: falling premiums, a redemption shock, rising claims and discounts for reinsurance inflows.

Chart 1: Representativeness of participants

x: categories of participants/y [lhs] number of participants; [rhs] share of the sector covered (%)

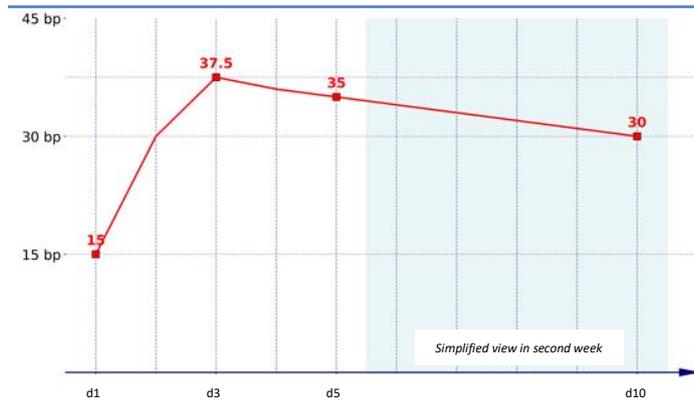


Sources: ACPR, AMF.

Note: Market share is defined on the basis of the total assets of participating solo entities for insurers and total assets for banks. For portfolio management companies, the inclusion of foreign funds managed by French companies or their foreign subsidiaries does not allow for a specific calculation of the coverage rate. To give an order of magnitude, however, we can state that the cumulative net assets of the French and foreign funds included in the exercise represent 48% of the cumulative net assets of funds domiciled in France; data as at 31 March 2025.

Chart 2: Widening spread dynamics of low-risk government bonds

x: time/y: (percentage points of rates)



Source: ACPR.

Note: The spread on low-risk sovereign bonds should widen by 30 basis points at the end of the scenario. The shock reaches 15 basis points on the first day, then 30 basis points on the second day. On the third day, contagion effects trigger an additional market reaction, and the shock reaches 37.5 basis points. Finally, the spread gradually decreases between the fourth and tenth days, towards the target level of 30 basis points.

This shock dynamic (increase in risk between the first and third days, then easing between the third and tenth days) applies to all risk factors in the scenario, whether expressed in basis points or monetary value.

Table 1: Shock on key variables on day 3

Key variables	Worst shock (D3)
Equities	-31%
EUR swap rates	+62.5 basis points
EU sovereign credit spread	Between +37.5 and +87.5 basis points
EU corporate credit spread	Between 87.5 and 350 basis points
Life insurance redemptions	1% of mathematical reserves over the period, with 80% concentrated in the first week
Premiums collected	-60% on life and non-life contracts, excluding retirement plans

Sources: ACPR.

The first round under the bottom-up approach (submission of results by participants) should be completed during the first quarter of 2026. This data collection will be followed by a quality assurance phase and an analysis of shock amplification mechanisms conducted jointly by teams from the ACPR and the AMF with the support of the Banque de France. It is based on modelling that incorporates the latest academic work in the field, as well as top-down modelling developed by Banque de France teams to assess the effects of individual

behaviour on the resilience of the system, estimate the overall consistency of the developments reported by participants and, if necessary, reassess the shocks. The impacts and the management actions employed by participants will be assessed in this context. Based on these analyses, the practical modalities for the second round will be decided depending on whether or not they will alter the scenario, given the extent of the effects of individual reactions on the dynamics of the system as a whole. An initial interim report will be published in spring 2026. The final summary report is expected in the third quarter of 2026.

1.5 New risks connected with tokenisation are emerging, while cyber threats persist

Faced with ongoing and extremely severe cyber threats, financial institutions' resilience is strengthening

In 2025, the number of cyberattacks stabilised, but the threat level remains very high. The still deeply troubled geopolitical environment could see a resurgence of cyberwarfare operations, such as those observed in the months leading up to the invasion of Ukraine. According to the European Union Agency for Cybersecurity (ENISA), 79.4% of cyberattacks recorded in the EU are ideology driven,¹¹⁶ while 13.4% are financially motivated. Furthermore, the number of cyberattacks spikes significantly during geopolitical events or national elections. Ransomware is still a preferred attack vector and accounts for around 60% of claims exceeding EUR 1 million submitted to insurers for cyber protection in the first half of 2025.¹¹⁷ Distributed denial-of-service (DDoS) attacks also pose a major threat, illustrated by the cyberattack that targeted La Poste and its subsidiary La Banque Postale between 22 and 26 December 2025. While physical payment systems remained in operation, online services were temporarily paralysed. Beyond the operational challenges they raise, attacks such as these are likely to pose a reputational risk for financial institutions.

The European Banking Authority has shown that banks see cyber risk and data security as their main operational risk factor. This perception is on the rise, increasing from 64% in March 2023 to 82% in March 2025.¹¹⁸ According to ENISA figures, the financial sector accounts for 4.5% of all incidents recorded in 2025 in European Union countries and is one of the sectors most targeted by cyberattacks, behind transport (7.5%) and digital services (4.8%). However, all three fall far behind public administration as the most targeted sector in the EU (38.2%). As financial institutions report an increasing number of successful cyberattacks that have caused major incidents (see Chart 1.57), financial players are stepping up their investments to prepare for cyber risks. According to a survey conducted by Moody's in 2025,¹¹⁹ EMEA-region¹²⁰ banks are tending to increase their cybersecurity spending, with 22% of them allocating more than 10% of their IT budget to cybersecurity (compared with 12% of responding banks in 2023). The increased investment is helping to make the financial sector more resilient to cyber risk.

¹¹⁶ ENISA Threat Landscape 2025 | ENISA

¹¹⁷ Allianz, *Cyber insureds gain momentum against attackers; but supply chains challenges remain*, September 2025.

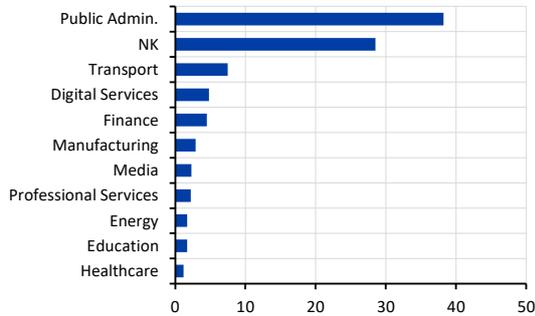
¹¹⁸ European Banking Authority (2025), *"Operational risks and resilience", Risk Assessment Report, June*.

¹¹⁹ Moody's Ratings (2025), "Global cyber risk issuer surveys", September.

¹²⁰ Europe, Middle East and Africa.

Chart 1.56: Breakdown of cyberattacks by sector in 2025

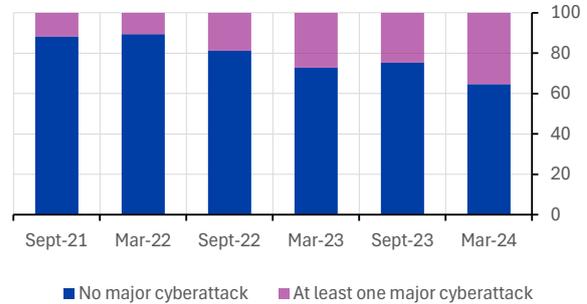
x: proportion of cyberattacks/y: sectors



NK = not known
Source: ENISA.

Chart 1.57: Proportion of European banks that have declared at least one cyberattack that caused major incidents

x: time/y: proportion of responding banks (%)



Source: European Banking Authority Risk Assessment Questionnaires.
Most recent value: March 2024.

The implementation of the European DORA regulation, which entered into force on 17 January 2025, has contributed to resilience and risk assessment. Financial entities report major incidents related to information and communication technologies (ICT) and payments to the ACPR, the Banque de France and the AMF.¹²¹ Of all the major incidents reported to the ACPR between 17 January 2025 and 31 August 2025, more than a quarter resulted from cyberattacks, suffered either directly or through a third-party ICT service provider. However, none of these incidents necessitated the activation of the Paris Resilience Group or the ACPR's crisis management protocol, nor did they require notification to the European Union's Systemic Cyber Incident Coordination Framework (EU-SCICF).

For the first time, financial entities were also required to submit their registers of information, listing all their contracts with ICT service providers. These registers demonstrated that financial entities' essential or important functions are heavily dependent on services provided by external ICT providers. They also contributed to the development of the list of critical third-party providers (CTPPs), which was made public in November 2025. From the beginning of 2026, CTPPs will be subject to a new supervisory framework of three European authorities (EBA, ESMA and EIOPA – the European Insurance and Occupational Pensions Authority) created by DORA. From its launch, the ACPR and the Banque de France will participate in the work of the joint examination teams (JETs), coordinated by the three authorities' joint oversight venture. This monitoring is all the more necessary given that more than half of the major incidents reported to the ACPR up to the end of August 2025 originated from a third-party ICT service provider, and that the *Agence nationale de la sécurité des systèmes d'information* (ANSSI – the French national cybersecurity agency) has identified supply chain attacks as a major trend with implications for all economic sectors.¹²²

Moreover, DORA requires that the most systemically important financial entities implement threat-led penetration testing. These tests are supervised by the competent authorities (in France, the ACPR, AMF and Banque de France, and the ECB for systemically important credit institutions) and are intended to reinforce the institutions' cyber resilience. While 2025 was devoted to providing support to entities finalising their compliance with the DORA regulation, 2026 is shaping up to be a year of more intensive cyber risk supervision. The authorities expect that, after one year of implementation, financial entities will have fully integrated the requirements of the regulation into their digital operational resilience systems.

¹²¹ DORA FAQ on the ACPR website. (<https://acpr.banque-france.fr/fr/reglementation/focus-sur-la-reglementation/transverse/digital-operational-resilience-act-dora/faq-sur-la-directive-et-le-reglement-dora>).

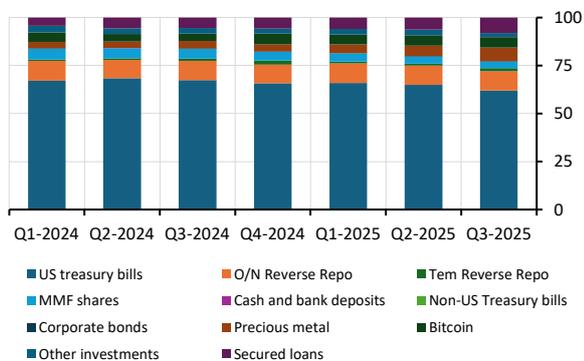
¹²² ANSSI (2025), *Panorama de la cybermenace 2024*, February.

The growth of stablecoins parallels a broader boom in tokenisation

Globally, outstanding amounts of stablecoins continue to grow, largely dominated by US dollar-pegged tokens (see Box 1.6). The rapid growth of stablecoins could pose a new risk to financial stability in the event of investor flight that would force issuers to liquidate their reserve asset portfolios. The strength of a 1-to-1 stablecoin to USD peg depends primarily on the quality and liquidity of its reserve assets. On 26 November 2025, Standard & Poor's downgraded its rating for Tether, the world's largest stablecoin issuer (USD 186 billion as of 1 January 2026), from 4 (constrained) to 5 (weak), due to the deterioration in the composition of its assets, marked in particular by a year-on-year increase in the proportion of Bitcoin from 3.1% to 5.4% (in the third quarter of 2025; see Chart 1.58). Standard & Poor's also emphasised the need for sufficiently frequent and granular transparency with regard to the composition of these reserves.

Chart 1.58: Composition of Tether reserve assets

x: time/y: reserve assets of Tether (%)

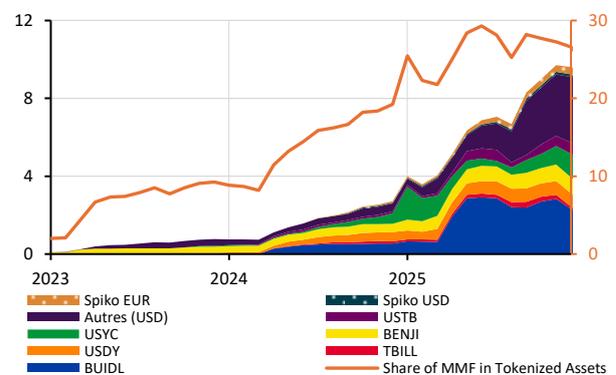


Source: Tether.

Most recent value: Q3 2025.

Chart 1.59: Change in outstanding amounts of tokenised money market funds

x: time/y: [lhs] amount (USD billions); [rhs] proportion of money market funds within tokenised assets (%)



Note: The proportion of money market funds refers to the proportion of tokenised money market funds within tokenised assets.

Source: rwa.xyz.

Most recent value: 31 December 2025.

Aside from stablecoins, tokenised finance is growing rapidly. Tokenisation refers to the process of issuing, storing and exchanging tokens representing assets on distributed platforms. As with stablecoins, tokenisation is more developed in the United States than in the euro area, and therefore mainly concerns US-dollar denominated assets. Nevertheless, a large number of tokenisation initiatives have recently emerged in Europe. In June 2025, the crypto-asset service provider Robinhood launched tokenised financial instruments tracking US stock prices in the European Union. In October 2025, the Banque de France, in partnership with Euroclear, announced the launch of the “Pythagore” project to tokenise commercial paper issued on the NEU CP market. In July 2024, the first European tokenised money market funds (in EUR, USD and GBP) were launched in France through a partnership between the fintech company Spiko and the asset management company Twenty First Capital, reflecting the rise of tokenisation in the field of asset management, particularly for money market funds, whose share of total tokenised assets continues to grow (see Chart 1.59). The tokenisation of funds in Europe has so far focused on money market funds, which are particularly well suited given their use by investors for cash management. While the US tokenised money market fund market stood at almost USD 9 billion on 1 January 2026, the European market is smaller but growing particularly quickly, with assets under management increasing from EUR 108 million in October 2024 to EUR 500 million in October 2025.

The new uses associated with tokenised money market funds may bring with them new types of risk. Until now, tokenised money market funds allowed 24/7 withdrawal requests, while the underlying assets (US Treasury securities, French government securities) were traded during market hours. Since September 2025, Spiko has provided the possibility of borrowing MiCA-compliant stablecoins issued by SG Forge by using Spiko

money market fund units. While these new uses may enable the creation of a secondary market for fund units, they could also contribute to a fragmentation of liquidity between platforms, while exposing tokenised funds to potential shocks in the crypto-asset market.¹²³

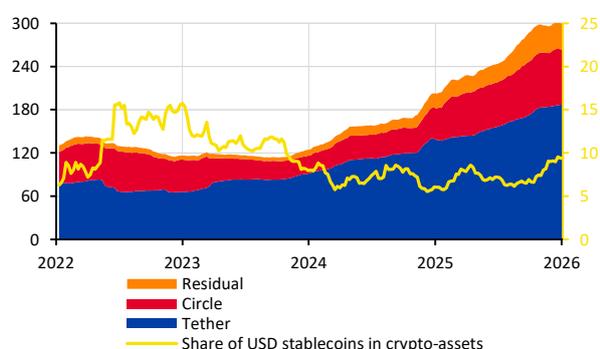
Box 1.6: The state of play in the stablecoin market

By Nicolas Barbaroux, Alice Schwenninger, Maxime Szymalka and Déborah Zribi

The tokenisation of finance has paved the way for new digital settlement assets, such as stablecoins, which circulate on blockchains or distributed ledger technologies (DLT). The global stablecoin market is growing rapidly, with its valuation increasing from over USD 200 billion in January 2025 to more than USD 298 billion at the beginning of January 2026 (see Chart 1). The issuers Tether and Circle together account for 87% of the total stablecoin market through their respective tokens, USDT and USDC. Circle complies with the rules established by US law governing the issuance of stablecoins (the Genius Act), in contrast to Tether. Currently, the stablecoin market is almost exclusively pegged to the US dollar (around 99% of stablecoins in circulation) and mainly issued by non-bank and non-European players. In Europe, the market for euro-pegged stablecoins remains limited in volume, with outstandings of around EUR 581 million at the beginning of January 2026. EURC and EURCV – the two main euro-pegged stablecoins – comply with the European Markets in Crypto-Assets (MiCA) regulation and together have a market capitalisation of EUR 371 million, or 61% of the market at the beginning of January 2026 (see Chart 2).

Chart 1: Stablecoin market capitalisation in USD

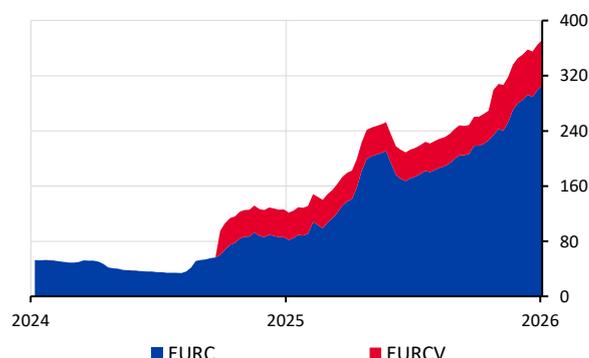
x: time/y: USD billions



Note: The residual consists of 17 USD-pegged stablecoins. The following crypto-assets are considered: Bitcoin, Ethereum, BNB, XRP, Dogecoin, Matic, Polkadot, Solana, Chainlink, Uniswap, Avalanche, Tron, Litecoin, Stellar, Cosmos hub, Ethereum classic, Monero, Bitcoin cash, Cronos, Algorand, Internet computer, Terra and Shiba Inu.
Sources: CoinGecko, LSEG Workspace; Banque de France calculations.
Most recent value: 31 December 2025.

Chart 2: Market capitalisation of euro-pegged stablecoins, EURC and EURCV

x: time/y: EUR billions



Note: Weekly average of daily data. Both stablecoins are authorised under the MiCAR.
Sources: CoinGecko, ECB; Banque de France calculations.
Most recent value: 31 December 2025.

Stablecoins are primarily used as settlement assets and as a store of value for transactions between crypto-assets (nearly 88% of stablecoin transactions). Next, stablecoins are also used for retail and wholesale payments (accounting for 6% of transactions in 2024).¹²⁴ They can also serve as an alternative to traditional

¹²³ Azar (P.) et al. (2025), "The financial stability implications of tokenized investment funds", Liberty Street Economics, 24 September.

¹²⁴ Source: "Les stablecoins sont-ils en train de détruire la Banque centrale européenne ?", *Le Grand Continent*, 2025, April.

currencies for certain cross-border payments, although the true scale of its use for this purpose, which is regularly cited in international reports and research, needs to be properly substantiated and quantified.¹²⁵

The European MiCAR, which has been fully applicable within the EU since 30 December 2024, provides a comprehensive legal framework for crypto-asset and stablecoin issuers and service providers. MiCAR establishes a dual framework for stablecoins, distinguishing between two legal regimes: electronic money tokens (EMTs) and asset-referenced tokens (ARTs).¹²⁶ EMTs cover all stablecoins, pegged to a single official currency and issued by credit or electronic money institutions, and represent the entire regulated stablecoin market in the European Union. In order to prevent certain reserve-related risks, MiCAR includes provisions such as the ring-fencing of reserve assets for stablecoins issued by non-bank actors, a minimum proportion (ranging from 30% to 60%) of reserve assets held in the form of bank deposits and the obligation to invest in safe and liquid assets. One year on from the implementation of the MiCAR provisions on stablecoins, 17 issuers have been granted licences and 27 EMT stablecoins have been issued in the European Union. In addition, MiCAR requires crypto-asset service providers (CASP) to obtain authorisation from each of the national competent authorities. An 18-month transitional period, until 30 June 2026, was made available to CASPs registered under existing pre-MiCAR national regimes (such as the PSAN status, introduced by the Pacte Act in France).

Despite the safeguards introduced by MiCAR, the rapid growth of stablecoins could present new risks to financial stability, mainly liquidity risk in the event of investor flight. Exits could notably occur if confidence is lost in a stablecoin's ability to maintain its benchmark value (as happened with Circle's USDC during the collapse of Silicon Valley Bank in 2023, for example), or if investors have difficulty selling their stablecoin holdings on the secondary market.¹²⁷ Other new risks are arising, such as the risk associated with the multi-issuer model, which allows a EU-authorised issuer to distribute the same token across different jurisdictions. If the issuer's reserves are spread across several jurisdictions that do not share similar rules, particularly with regard to the quality of reserve asset management and user redemption rights, liquidity risk in the event of a crisis of confidence could result: stablecoin holders could flock to the European institution issuing the token to obtain reimbursement and benefit from the significant protections afforded by the MiCAR framework, which could deplete European reserves and pose a risk to financial stability. The more widespread adoption of these instruments for institutional settlements, as evidenced by the partnership between Circle and Deutsche Börse Group for the USDC stablecoin, demonstrates an increasing interconnection with traditional finance. Traditional financial players should therefore be able to settle certain transactions with Circle's EURC stablecoin, which could accentuate the transmission of risks between them.¹²⁸

To strengthen its sovereignty and guard against financial stability risks, the Eurosystem is committed to providing a wholesale central bank digital currency (CBDC) by the end of 2026 through the Pontes project. Its purpose is to provide stakeholders in the tokenised financial assets ecosystem with an adapted central bank currency, tokenised and available on blockchain, to ensure that central bank money, which is the most secure means of settlement, remains the preferred instrument when settling transactions involving financial assets.

In addition to the central bank digital currency, private sector initiatives, particularly by European banks, to develop a tokenised euro-pegged commercial bank currency should be encouraged. A central bank currency is not intended to cover all use cases or be accessible to all types of players. Even after the introduction of a

¹²⁵ See Reuter, M., "[Decrypting Crypto: How to Estimate International Stablecoin Flows](#)", *IMF Working Papers*, Vol. 2025, No. 141, International Monetary Fund, 2025.

¹²⁶ The value of ARTs is based on a basket of assets including currencies, commodities and crypto-assets. At present, no ARTs have been approved.

¹²⁷ Ma Y., Zeng Y., Lee Zhang A., "Stablecoins Runs and the Centralization of Arbitrage", *NBER Working Paper*, No. 33882.

¹²⁸ Madelin (T.), "[Deutsche Börse s'allie à Circle pour proposer ses stablecoins en Europe](#)", *Les Échos*, 30 September.

wholesale interbank CBDC (through the Pontes project), a robust layer of commercial bank money will have to be maintained in the tokenised sphere, just as exists in the traditional two-tier monetary system. It is this layer of commercial bank money that ensures the financing of the real economy.

Several models, such as tokenised deposits and stablecoins, are currently being explored to meet this need. The level of risk associated with these assets varies depending on the type of issuer and how they are secured and distributed. The use cases for these different commercial bank money models will therefore need to be considered according to their levels of risk.

As such, the initiatives currently being undertaken by banking consortia to issue euro-backed stablecoins, as well as the work on tokenised deposits/deposit tokens, are essential. European public and private actors have a joint responsibility to ensure the development of these complementary assets in a secure manner that guarantees financial stability.

1.6 Climate risk continues to intensify and demands a coordinated response

Coordinated action by authorities to strengthen the resilience of the financial system to the risks associated with climate change is imperative

Climate risk continues to intensify and poses a core challenge to financial stability. In May 2025, the Network for Greening the Financial System (NGFS) published its short-term climate scenarios demonstrating the economic consequences of plausible but extreme weather events. These scenarios detail a sequence of heat waves, droughts and wildfires with major floods the following year in every region of the world. The results show that events such as these could cause a drop in GDP of up to 5% in one year in Europe or North America, and of up to 12% in Africa. The disruptions would naturally have repercussions for the financial sector that could impact asset valuations, borrower solvency and the resilience of financial institutions. According to a European Central Bank analysis,¹²⁹ 72% of companies in the euro area exhibit high dependency on at least one essential natural ecosystem service, and nearly 60% of loans granted in the euro area are exposed to companies that are insufficiently protected against flooding. Financial supervision is now taking climate risk into greater account, particularly through climate stress tests and the integration of climate transition plans in prudential regulation, which European banks will have to prepare from 2026 onwards. At a time when progress in traditional international forums is being blocked by unilateral US policy decisions, it is important to continue efforts to better understand and reduce the risk to financial stability associated with climate change, as the NGFS continues to do.

Mobilising private and public funding is essential to mitigating climate risk and strengthening the financial system's resilience to the threat. Sustainable finance has grown significantly over the past decade. The global outstanding amount of green bonds, for example, has increased 30-fold from EUR 20 billion in 2014 to around EUR 600 billion in 2024. The acceleration of the market has stemmed in particular on the development of a credible and verifiable set of standards and reporting requirements, such as the European Union Green Bond (EUGB) standard regulation, which came into force in December 2024 (see Box 1.7).

¹²⁹ Ceglar (A.) *et al.* (2025), "European banks face significant vulnerability to ecosystem degradation and climate change", *Communications Earth & Environment*, No. 6, article 750, 17 September.

Box 1.7: The development of the green bond market since the introduction of the EUGB standard

By Xavier Jacquemier, Tristan Jourde and Dilyara Salakhova

The green bond market is expanding fast but still lacks the transparency needed. Green bonds were among the very first financial instruments to be associated with green finance.¹³⁰ They allow a variety of participants, including state-owned entities as well as corporations, to raise funds to finance environmental projects. The green bond market has expanded rapidly worldwide, particularly since 2016, with Europe the primary issuer. In September 2025, total outstanding active green bonds were worth almost EUR 3,000 billion.¹³¹ However, development of the green bond market may be held back by the absence of a binding regulatory framework, in particular concerning disclosures of the environmental aspect and actual impact of funded projects. The lack of a standardised framework makes the market less transparent and could fuel suspicions of greenwashing.

To address the lack of standardisation, the European Union (EU) has established rules bolstering transparency and external review requirements for green bonds. As part of its sustainable finance strategy, the EU introduced the European Union Green Bond (EUGB) standard regulation¹³² to be a benchmark for green bonds in Europe. This standard is intended to enhance the environmental impact of green bonds while reducing the risk of greenwashing. The regulation came into effect in December 2023 and has applied since December 2024. The EUGB introduces more stringent requirements for green bond issuance compared with the Green Bond Principles (GBP) of the International Capital Market Association or the Climate Bond Initiative (CBI) criteria widely used by market participants. The main requirements of the EUGB label include the obligation to finance activities that are aligned with the European taxonomy,¹³³ with at least 85% of funds invested in taxonomy activities and contributing significantly to one of the six environmental objectives¹³⁴ defined in the taxonomy. The EUGB label also requires a clear link between the projects financed by green bonds and the issuer's environmental strategy, or the issuer's implementation of a transition plan. An external examiner supervised by ESMA must give an opinion on a European green bond issuer's compliance with the requirements of the EUGB standard. Lastly, while an external review of impact reports remains optional, their publication is mandatory.

In its first year, the EUGB label has opened positively, with steady issuance volumes and strong investor demand. In 2025, the EUGB segment already represented EUR 18 billion, or around 8% of green bond issuance in the euro area, with an average monthly issuance rate of EUR 2 billion to EUR 3 billion (excluding lows in January and May). In addition, issuers' reporting show strong investor interest with a median oversubscription rate of 4.4 times on average and known to reach up to 13 times the volume offered.

¹³⁰ Banque de France (2022), "Obligation verte", [ABC de l'économie, March](#).

¹³¹ The total outstanding amount is calculated based on the Bloomberg database (only ICMA-accredited).

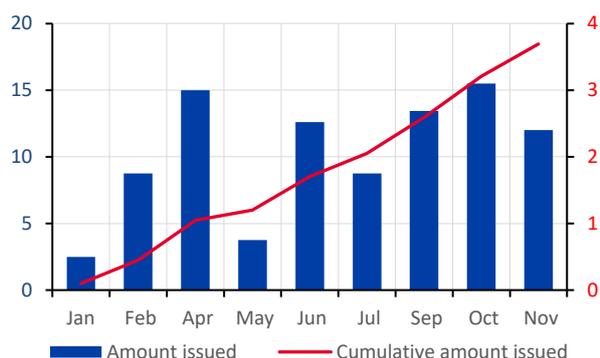
¹³² European Union Green Bond Standard. Regulation (EU) 2023/2631 of the European Parliament and of the Council.

¹³³ The [European taxonomy](#) is a unified classification system for economic activities that are considered green.

¹³⁴ Climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

Chart 1: EUGB green bond issuance in 2025

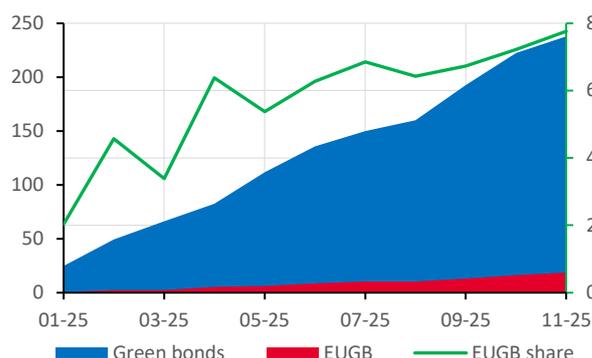
x: time/y: (EUR billions)



Sources: Bloomberg; Banque de France calculations.
Most recent value: November 2025.

Chart 2: Growth in the EUGB bond market

x: time/y: [lhs] (EUR billions); [rhs] (%)

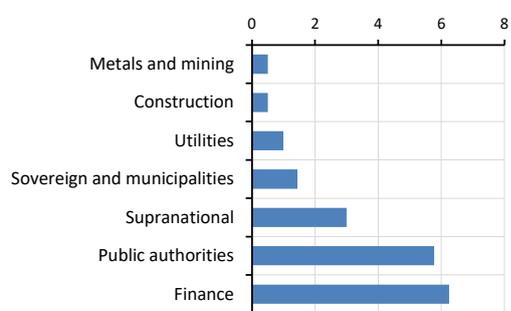


Sources: Bloomberg; Banque de France calculations.
Note: The EUGB share corresponds to the ratio between the amounts of EUGB bonds and green bonds issued in the euro area in 2025.
Most recent value: November 2025.

The EUGB market is mainly driven by the private sector and comprises around 20 diverse issuers across ten euro area countries. Within the private sector, which accounts for three-quarters of the amounts issued, the financial sector, driven mainly by banks, dominates with EUR 6.5 billion. It is closely followed by the utilities sector (EUR 6 billion), some of which have issued bonds to finance activities in the gas and nuclear power sectors, for example, which are deemed transition energies in the European taxonomy. In addition to players in the construction and mining sectors, the market is attracting public entities such as the European Investment Bank and *Île-de-France Mobilités*, and even Denmark, the first state to issue an EUGB-labelled sovereign bond. Geographically, four countries stand out, with Italy, Luxembourg, the Netherlands and Spain each issuing volumes ranging from EUR 2.75 billion to EUR 3.25 billion.

Chart 3: EUGB green bond issuers – sectors

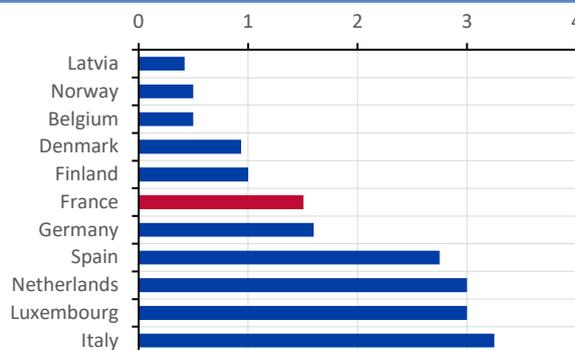
x: EUR billions/y: sectors



Sources: Bloomberg; Banque de France calculations.
Note: Total outstanding amount in November 2025.

Chart 4: EUGB green bond issuers – domicile

x: EUR billions/y: domicile



Sources: Bloomberg; Banque de France calculations.
Note: Total outstanding amount in November 2025.

2. The reshaping of the credit landscape in light of the development of private debt and its implications for financial stability

Coordinators: Gabriel Chemain, Lucas Devigne, Frédéric Guével and Edith Stojanovic

Other contributors: Frédéric Ahado, Grégoire Desbrosses, Louis-Édouard Genty and Raphaël Gorrard

The private credit market – i.e. financing granted to companies by non-bank entities in the form of unlisted debt – has grown significantly since 2010, driven by the United States, where it has become a significant corporate financing channel.¹³⁵ The market in Europe remains more modest but has also grown as an alternative to bank-intermediated financing and the bond market, primarily for medium-sized and highly indebted companies. This trend can be explained by the relative withdrawal of banks from certain types of highly leveraged financing, by the flexibility that this type of financing offers companies, despite its higher cost, and by investor appetite for products offering a higher expected return than more traditional bond products.

The market's development, particularly in the United States, has brought with it more complex financing structures prone to vulnerabilities related to liquidity mismatches, leverage, and growing interconnections with the rest of the financial system. The private credit market has traditionally consisted of closed-ended low-leverage investment funds – structures that limit systemic risks to financial stability. However, the development of funds that allow periodic exits for investors, particularly in the context of the gradual opening up to retail customers, can generate liquidity mismatches within the funds, given the illiquid nature of their assets. These vulnerabilities are exacerbated by increased leverage at the fund level, with an expanding use of bank financing, which is more pronounced in the United States but also present in Europe. In the United States, the development of structured debt instruments issued by funds further muddies the financing chain and spreads risks to other sectors, particularly the US life insurance sector. These interconnections increase the likelihood of newly emerging potential channels of contagion to the rest of the financial system in the event of tensions. However, the private credit market's lack of transparency makes it difficult for market participants and authorities alike to assess all of these vulnerabilities.

As the private credit market continues its transformation and signs of stress appear in the highly indebted corporate credit segment in the United States, transparency has to be improved to enhance the risk monitoring of all participants. The market is diversifying with the emergence of new segments, particularly due to the massive and capital-intensive financing needs of innovative sectors, most notably artificial intelligence (AI). This restructuring is seeing an increased concentration around a handful of managers operating at a global scale and capable of structuring large-scale transactions. In an environment of heightened competition, some players may be tempted to take greater risks using a range of different practices to deploy their capital quickly. Against this landscape, at a time when the market's resilience has not yet been tested during a prolonged macroeconomic downturn, greater transparency would seem to be needed to enable stakeholders to gain an overview of the risks to which they are exposed and to enable authorities to enhance their supervision.

¹³⁵ The scope of private credit varies depending on the definitions used and may, in some cases, include infrastructure and real estate financing. This chapter focuses on corporate financing.

2.1. The private credit market has grown rapidly as banks have withdrawn from certain segments of activity

The market has undergone strong growth in recent years, particularly in the United States, but remains relatively underdeveloped in France

Private credit refers to financing granted to companies by non-bank vehicles – often funds or similar entities – as opposed to bank lending or the public bond market. This financing is most often provided directly by private credit vehicles, either bilaterally or within a small group of lenders. The financing may also be acquired by these vehicles after origination, particularly under originate-to-distribute models agreed with banks. This class of assets encompasses several types of strategies.

- The main strategy is direct lending to highly indebted small and medium-sized enterprises (SMEs), typically companies that have undergone a leveraged buyout (LBO). These direct loans are conventionally variable-rate loans with financial covenants based on cash flow.
- Mezzanine loans are also among the most frequently applied strategies and often come with equity participation. This category of financing thus falls between debt and equity.
- Asset-based lending is a form of structured financing where loans are secured by tangible (real estate, infrastructure, etc.) or intangible (music royalties, patents, etc.) assets.
- Distressed lending involves purchasing speculative-grade debt securities on secondary markets at prices well below nominal value.

The global private credit market more than quadrupled between 2014 and 2024 to nearly USD 2,000 billion.¹³⁶ North America continues to dominate the market, accounting for nearly three-quarters of fundraising in 2024, compared with 20% for Europe (including the United Kingdom), where it is growing rapidly. France ranks second in Europe¹³⁷ after the United Kingdom, with a cumulative value of EUR 66 billion invested by French and foreign private credit funds between 2020 and 2024, of which approximately 55% was invested by domestic funds. In France, private credit continues to play a limited role in corporate financing: it is estimated that in 2024, private credit issued by French funds accounted for less than 4% of annual bank credit flows to non-financial corporations (NFCs).¹³⁸ In its April 2025 Financial Stability Report, the US Federal Reserve estimated that private credit accounted for around 9% of the total debt stock of NFCs in the United States. However, it is important to note that it remains difficult to measure this market accurately: The figures provided in this report are mainly derived from private sources, as official public data is limited relative to listed markets.¹³⁹

The growth of private credit can be explained by several factors related to changes in credit supply and demand.

- The boom in private credit is generally linked to the reduction in banks' appetite for risk following the 2008 financial crisis and the tightening of the regulatory framework. In this context, private credit structures have been able to develop alongside companies that are too highly leveraged to be acceptable by banks or cannot provide adequate collateral.
- The rise of private credit should also be linked to that of the private equity market: it is estimated that nearly three-quarters of private credit transactions (excluding infrastructure) carried out in France in 2024 involved the participation of a private equity investor.¹⁴⁰
- Borrowers are particularly attracted to private credit because of its speed and flexibility compared with bank lending. The possibility of dealing with a single point of contact and having flexible repayment terms

¹³⁶ PitchBook (2025), *Global private debt report*, March.

¹³⁷ France Invest (2025) *Activité des fonds de dette privée en France en 2024*, March. However, according to PitchBook France is neck and neck with the United Kingdom in terms of capital deployment.

¹³⁸ Estimate obtained from a comparison of two data sources (France Invest and Banque de France) whose scopes may differ.

¹³⁹ Methodologies and coverage scopes may vary depending on the provider.

¹⁴⁰ France Invest data. French and foreign funds combined.

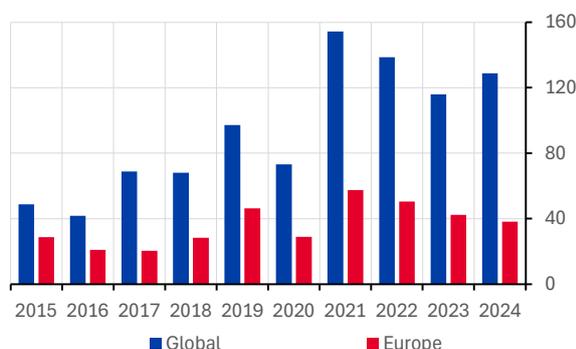
(such as payment-in-kind – PIK – allowing interest to be added to the loan principal) or a simplified structure incorporating unitranche debt are also potential arguments in favour of turning to private credit. For some borrowers, these advantages may offset the additional cost associated with this type of financing: in the United States, the median spread relative to the risk-free rate on private credit is around 6%, compared with between 1.2% and 1.8% for bank loans.

- As for investors, the search for yield in a low interest rates environment and diversification objectives partly explain the strong growth in fundraising.

The private credit market has cooled since its 2022 peak, largely due to the rise in key interest rates, which has prompted a slowdown in the number of leveraged buyouts and mergers and acquisitions. While dry powder (uninvested capital) reached record levels, investors may have been inclined to freeze or reduce their investments in this asset class, contributing to a slowdown in fundraising, while increased economic and trade uncertainties may also have played a part. Since the beginning of 2025, the relative share of investments directed towards Europe has grown, driven by large-scale fundraising by a few major international players.¹⁴¹

Chart 2.1: Capital raised by private credit funds

x: time/y: amount (USD billions)

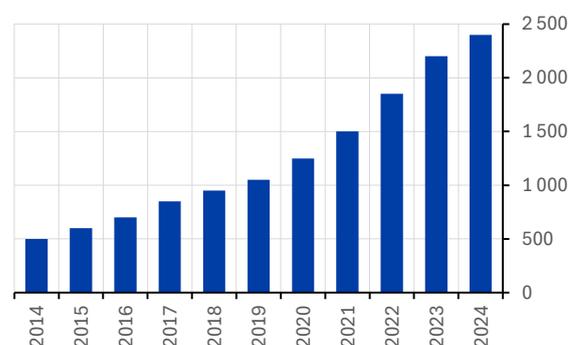


Source: Preqin.

Most recent value: end of 2024.

Chart 2.2: Assets under management in private debt (all categories combined)

x: time/y: amount (USD billions)



Source: Pitchbook.

Most recent value: end of 2024.

A predominant role for institutional players

Management companies active in the private credit market are most often present in a number of segments of the private capital markets (private equity or investments in real assets). Private credit investment structures traditionally take the form of closed-ended vehicles that hold loans until maturity (generally between five and ten years) with coupon payments made at regular intervals. In France, these are alternative investment funds (AIFs) exclusively, which, depending on the risk profile, target clientele and applicable regulations favoured by the asset manager, can take several forms – *sociétés d'investissement à capital variable* (SICAVs – open-ended investment companies), *fonds communs de placements* (FCPs – mutual funds), *sociétés de libre partenariat* (SLPs – limited partnerships) – and correspond to different legal regimes – *fonds communs de placements à risques* (FCPR – equity capital mutual funds), European Long Term Investment Funds (ELTIF), etc. Luxembourg is the leading European Union jurisdiction for credit fund domiciliation, where players particularly appreciate the structure of the Luxembourg Reserved Alternative Investment Fund (RAIF).

These characteristics may evolve as the industry develops, offering so-called semi-liquid fund structures that allow investors to exit periodically. This is largely the case in the United States, where business development companies (BDCs) have grown significantly alongside traditional closed-ended funds and have a specific regulatory framework (see Box 2.1). BDCs now account for one-fifth of the credit to middle-market

¹⁴¹ For example, Ares raised USD 17.7 billion for its European direct lending fund in early 2025.

companies.¹⁴² They are part of the closed-ended fund universe but offer investors liquidity options. Funds offering redemption options at regular intervals are also gaining ground in Europe (see below).

Institutional players with a preference for long-term investment horizons are the main investors in the private credit market. These notably include pension funds, insurers, other investment funds and sovereign wealth funds, which feel private credit offers low apparent volatility and provides a means of diversifying their portfolios. Private credit also offers attractive returns, often at between 6% and 10%, and nearly 6 percentage points higher than interbank rates in 2024. Retail investors remain in the minority, but their share is growing as structures specifically designed to meet their needs are being developed.

The private credit market mainly finances highly leveraged SMEs and mid-tiers. They are often supported by private equity funds, particularly as part of leveraged buyouts (LBOs). Fast-growing companies seeking rapid and flexible financing are also among the borrowers. Larger or less indebted companies have historically tended to favour more traditional sources of financing, such as bank lending, syndicated loans and public bond markets. Companies using private credit are mainly concentrated in sectors that generate predictable and regular cash flows or have strong growth prospects. In France, these notably include the healthcare, business services, technology and communications sectors.

Box 2.1: Comparative analysis of the regulation of private credit players in the European Union, the United Kingdom and the United States

By Brieuc Levené, Aubert Massengo, Camille Riesi, Nicolas Rigaudière and Inès Rispal

In the European Union, the adoption in 2024 of the amendment to the EU Alternative Investment Fund Managers Directive (AIFMD), known as AIFMD 2, established a harmonised framework authorising all alternative investment funds (AIFs) to grant loans¹⁴³ under specific conditions. The regulatory landscape had previously been fragmented, with some countries such as France, the United Kingdom, Spain and Italy allowing funds to grant loans, while others, such as Germany, prohibited it. The amendment to the AIFMD in March 2024 clarified AIFs's scope to grant loans, and subjects all lending funds to a minimum framework: a lending limit per entity set at 20% of the fund's capital; a 5% risk retention requirement for any loan issued and immediately resold; and a ban on the use of an originate-to-distribute strategy. Stricter requirements are set down for funds that originate loans as their main activity: in particular, they must be closed-ended – unless the notional value of loans granted is less than 50% of the fund's net asset value (NAV) or they can demonstrate that their liquidity management system is sufficiently robust – and their leverage is capped at 300% (open-ended funds are capped at 175%).¹⁴⁴ AIFMD 2 also sets down transparency requirements, with managers required to report to the competent authorities on the main markets and instruments on which they trade on behalf of the AIFs they manage, as well as the main exposures and concentrations of each AIF.¹⁴⁵ The adoption of AIFMD 2 into national law – required by 16 April 2026 at the latest – could lead to divergences between countries due to the options included in the text. For example, countries may choose at a national level to prohibit loan-originating AIFs from granting loans to individual consumers.¹⁴⁶ At the same time, the revised European Long-Term Investment Fund Regulation (ELTIF 2) of 2023 strengthens European long-term investment funds' ability to operate in the private credit market, notably by authorising their marketing from the first euro to retail investors and by raising the limit for borrowing liquidity. Although ELTIFs are closed-ended in nature, they may now allow for early

¹⁴² Avalos (F.), Doerr (S.) and Pinter (G.) (2025), [“The global drivers of private credit”](#), *BIS Quarterly Review*, March.

¹⁴³ In France (since 2016) and other European countries, this has been accepted for several years.

¹⁴⁴ If they only originate shareholder loans, they are exempt from the rules applicable to lending activities as long as the aggregate notional value of the loans does not exceed 150% of the capital of the AIF.

¹⁴⁵ While AIFMD 2 requires managers to disclose to investors the “composition of the loan portfolio”, this is not the case for reporting to the competent authorities.

¹⁴⁶ The main challenges of transposing AIFMD 2 into national law – lending by AIFs, harmonisation of liquidity management tools for open-ended AIFs and OPCVMs, extension of the list of activities that AIF managers may carry out – are detailed in the [rapport du Haut Comité Juridique de la Place Financière de Paris](#).

redemptions under very strict liquidity conditions. Redemptions are capped at a percentage of liquid assets specified in the regulations.

Following Brexit, the United Kingdom has not adopted AIFMD 2. UK regulations therefore do not contain any provisions specific to loan-originating AIFs and only incorporate general provisions that are applicable to AIFs.

AIFs can grant loans in the form of Qualified Investor Schemes (QIS) or Long-Term Asset Funds (LTAF). AIF managers in the United Kingdom are subject to obligations that vary according to their size and leverage, particularly in terms of reporting, capital requirements, the implementation of an appropriate liquidity management system and regular stress tests. The UK authorities have launched a consultation process to review the framework in place since AIFMD 1, which could have an impact on loan-originating AIFs.

In addition, LTAFs, introduced in 2021, are a specific legal category designed to facilitate investment in illiquid assets, similar to ELTIFs in the European Union. They must invest at least 50% of their NAV in unlisted assets (compared to 55% for European ELTIFs), but are authorised to access a wider range of assets than ELTIFs. Their leverage is capped at 30% (compared to 50% for ELTIFs marketed to retail investors and 100% for ELTIFs marketed to professional investors), redemptions can be made monthly with 90 days' notice, and they do not benefit from the European passport.

In the United States, the regulatory framework applicable to private credit funds is based primarily on the Dodd-Frank Act and the rules adopted by the Securities and Exchange Commission (SEC). The framework applies more generally to the entire private fund category.¹⁴⁷

Funds with at least USD 150 million in assets under management are subject to the SEC's Form PF,¹⁴⁸ whose requirements were stepped up in May 2023 in order to better assess the emergence of systemic risks. Form PF is a confidential, aggregated reporting tool that provides information on leverage, counterparty exposure, concentration and liquidity. However, the Financial Stability Oversight Council (FSOC) has warned that the private credit sector remains particularly opaque. It recommends improving Form PF data collection and that banks reinforce their management of the credit risk related to their fund counterparties.¹⁴⁹ However, in contrast to the European Union, no leverage limits or liquidity buffer requirements are imposed on lending funds. Nevertheless, the FSOC – whose influence has been reduced¹⁵⁰ – can theoretically designate entities that are likely to become systemically important, resulting in their being subject to US Federal Reserve¹⁵¹ supervision and, notably, potential leverage and liquidity requirements that are not necessarily more lenient than those applicable to European lending funds. The regulatory framework for private credit in the United States has also been designed to support investment in middle market firms through business development companies (BDCs). These investment vehicles, many of which list their shares on stock exchanges, are subject to SEC disclosure requirements (including loan-by-loan reporting) and a debt limit typically set at an asset coverage ratio of 200% but which could be lowered under certain conditions to 150% as from 2018. BDCs are growing rapidly and have transcended their initial purpose of financing larger corporations. They now account for 20% of the private credit market in the United States.¹⁵²

The US regulatory framework could soon be amended to promote access to private credit for retail investors. The SEC has relaxed the thresholds that limit individual investment in closed-end funds exposed to private credit, which were initially designed as a safeguard against complex or illiquid investment strategies.¹⁵³ The President of the United States has also signed an executive order calling on US federal regulators to facilitate access to the

¹⁴⁷ The private funds category includes hedge funds, private equity funds and real estate funds, as opposed to mutual funds.

¹⁴⁸ United States Securities and Exchange Commission, [Form PF](#).

¹⁴⁹ FSOC (2024), [Annual Report](#).

¹⁵⁰ Bessent (S.) (2025), [Speech](#), 10 September.

¹⁵¹ No entity currently is designated as systemically important.

¹⁵² Avalos (F.), Doerr (S.) and Pinter (G.), op. cit., *BIS Quarterly Review*, March 2025.

¹⁵³ Closed-ended funds investing 15% or more of their assets in private funds are no longer required to impose a minimum initial investment of USD 25,000 and limit sales to accredited investors. [SEC.gov | ADI 2025-16 - Registered Closed-End Funds of Private Funds](#).

private credit market for 401(k)-type retirement plans,¹⁵⁴ in order to support a growth trend that also concerns insurance companies.

A stronger position for US players

The private credit market tends to centre around major, integrated asset managers, most often based in the United States and operating internationally. In 2014, fundraising by vehicles with assets under management exceeding USD 5 billion accounted for less than 5% of total capital raised, compared with nearly 50% in 2024.¹⁵⁵ These players are now able to compete with syndicated loans for the largest transactions. In 2025, for example, Apollo provided EDF with GBP 4.5 billion in financing by way of an unlisted private placement.¹⁵⁶

Private credit has thus recently shifted towards larger financing deals, which were previously reserved for syndicated loans, and higher levels of leverage. While deals worth less than EUR 100 million accounted for half of all transactions in Europe in 2021,¹⁵⁷ they now account for less than 15%, with a larger proportion of deals worth more than EUR 350 million (around 33%) and half of all transactions in the EUR 100 million to EUR 350 million range. Similarly, the proportion of jumbo deals (financing transactions of more than EUR 1 billion or USD 1 billion) is now considerable (10% of transactions in June 2025), despite there being no transactions of this size prior to 2021.

An asset class showing vulnerabilities

Valuation risk

Like other unlisted asset classes, the private credit market is exposed to valuation risk due to the absence of a secondary market. The valuation of unlisted assets depends on asset managers' assumptions, in contrast to listed assets, whose valuation is based on the opinions of market participants and reflects larger transaction volumes.¹⁵⁸ Private credit funds are generally valued at regular – quarterly or even monthly – intervals, but the practices applied by asset managers are not the same across the board. This lack of standardisation can create a risk of overvaluation, which may notably stem from agency conflicts between asset managers (paid commissions partly calculated on the basis of asset-under-management valuations) and their investors. Inaccurate valuations could mask potential unrealised losses, which would only be made public when the underlying loans mature. This valuation risk would be particularly likely to materialise in the event of an economic downturn and a tightening of financing conditions, with indebted companies finding themselves in a weakened position without the situation being immediately reflected in the fund's net asset value. In these circumstances, it is essential that asset managers guarantee their investors the fullest possible transparency by ensuring the independence of their valuation functions and recognising any deterioration in the quality of the underlying assets at a sufficiently early stage.

Risk associated with the use of leverage

The private credit ecosystem is exposed to leverage at several levels. This use of debt may occur at the level of the financed companies, the funds themselves, or their investors (see Chart 2.1) and the accumulation of leverage can amplify losses in the event of a market downturn when credit risk materialises on the underlying loan portfolio. Moreover, using leverage increases the sensitivity of funds to financing conditions.

By their nature, private credit funds are exposed to heightened credit risk due to the concentration of their investments in highly indebted companies, generally at variable rates and with higher risk premiums than

¹⁵⁴ [The White House \(2025\), "Democratizing access to alternative assets for 401\(k\) investors", 7 August.](#)

¹⁵⁵ PitchBook (2024), *Private Debt Annual Report*.

¹⁵⁶ EDF (2025), ["EDF announces the signature of an agreement with Apollo for the issue of up to €4.5 billion of unlisted bonds", 20 June.](#)

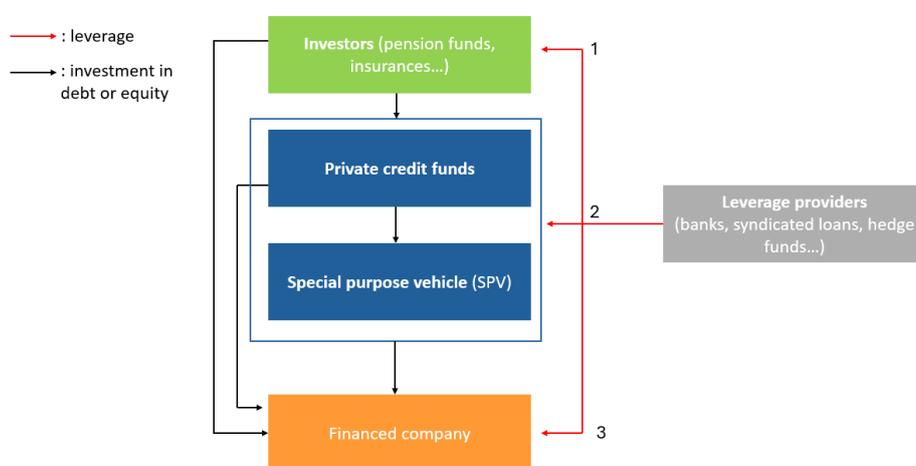
¹⁵⁷ PitchBook (2025), ["European direct lending volume grows in Q2, driven by jumbo deals", 29 July.](#)

¹⁵⁸ See [Assessment of risks to the French financial system](#) – June 2023.

traditional financing. The resilience of private credit funds requires strict management of this credit risk through a rigorous selection of borrowers, regular monitoring of their financial situation, loan structures tailored to their profile (financial covenants, level of indebtedness), and sound portfolio diversification.

Although private credit funds have typically had low levels of debt, there has been an increase in the use of leverage and greater diversification and complexity in their funding sources. The use of leverage can help to improve fund performance, meet temporary liquidity requirements and offset slowdowns in fundraising. However, identifying this leverage is difficult due to the limited and often incomplete data available. According to a report by the Alternative Credit Council,¹⁵⁹ the proportion of unleveraged funds fell from 42% in 2016 to 31% in 2024, while the proportion of funds employing leverage ratios of between 10% and 150% rose from 33% to 51%. While banks continue to be the main providers of financing for private credit funds, other sources, such as insurers and other asset managers, are now gaining ground (see below).

Diagram 2.1: An illustration of levels of leverage in a private credit transaction



Sources: IMF, IOSCO.

A liquidity risk that is limited but varies depending on the type of vehicle

Private credit vehicles are traditionally closed-ended funds with a defined lifespan, during which investors commit to keeping their capital locked in. This means that the fund's investment horizon can be aligned with the liquidity of the underlying assets, thereby reducing the risk of liquidity mismatch. As there is no possibility of early redemption, managers can focus on maximising fund performance without worrying about investor movements.

However, the opening up of private markets to retail clients has encouraged the development of semi-liquid funds, which allow for occasional early redemptions. These investment vehicles are generally evergreen, meaning that their lifespan is unlimited, or more often for a renewable period of 99 years. These types of structures have been growing sharply in number and in terms of the size of their assets since 2020. Globally, assets under management in private credit funds managed by semi-liquid or open-ended structures exceed USD 500 billion.¹⁶⁰ In Europe, where this trend is gaining momentum thanks to the ELTIF 2 regulation and the introduction of LTAFs in the United Kingdom (see Box 2.1), the number of funds adopting this format is growing rapidly (see Chart 2.3), despite assets under management remaining relatively modest. Around 60% of ELTIFs are domiciled in Luxembourg.¹⁶¹ In the United States, this trend is linked to the development of BDCs (see Chart 2.4), which can take several forms: listed BDCs, whose shares are freely traded on public markets, and

¹⁵⁹ AIMA, "[Financing the economy 2024](#)".

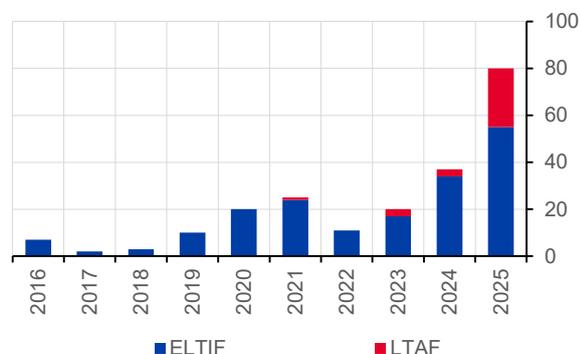
¹⁶⁰ S&P Global (2025), [Evergreen credit AuM surpasses \\$500bn](#), March.

¹⁶¹ [Register](#) maintained by the European Securities and Markets Authority (ESMA).

unlisted BDCs, which allow periodic redemptions.¹⁶² Among unlisted BDCs, perpetual BDCs have no liquidation horizon and raise capital continuously.

Chart 2.3: Number of ELTIFs and LTAFs in Europe (not solely dedicated to private credit)

x: time/y: number of funds



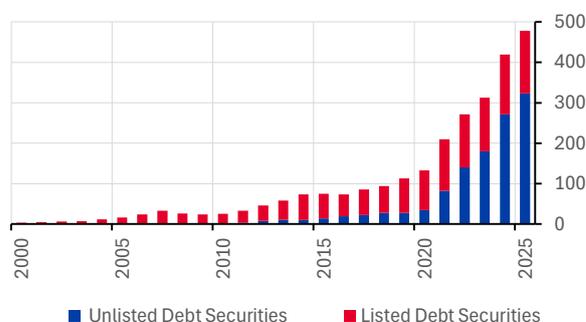
Source: Preqin.

Note: LTAFs, introduced in the United Kingdom in 2021, are a specific legal category designed to facilitate investment in illiquid assets, similar to ELTIFs in the European Union.

Most recent value: end of 2025.

Chart 2.4: BDCs' assets under management in the United States

x: time/y: assets under management (USD billions)



Source: Chernenko (S.), Ialenti (R.), Scharfstein (D.S.), (2025).

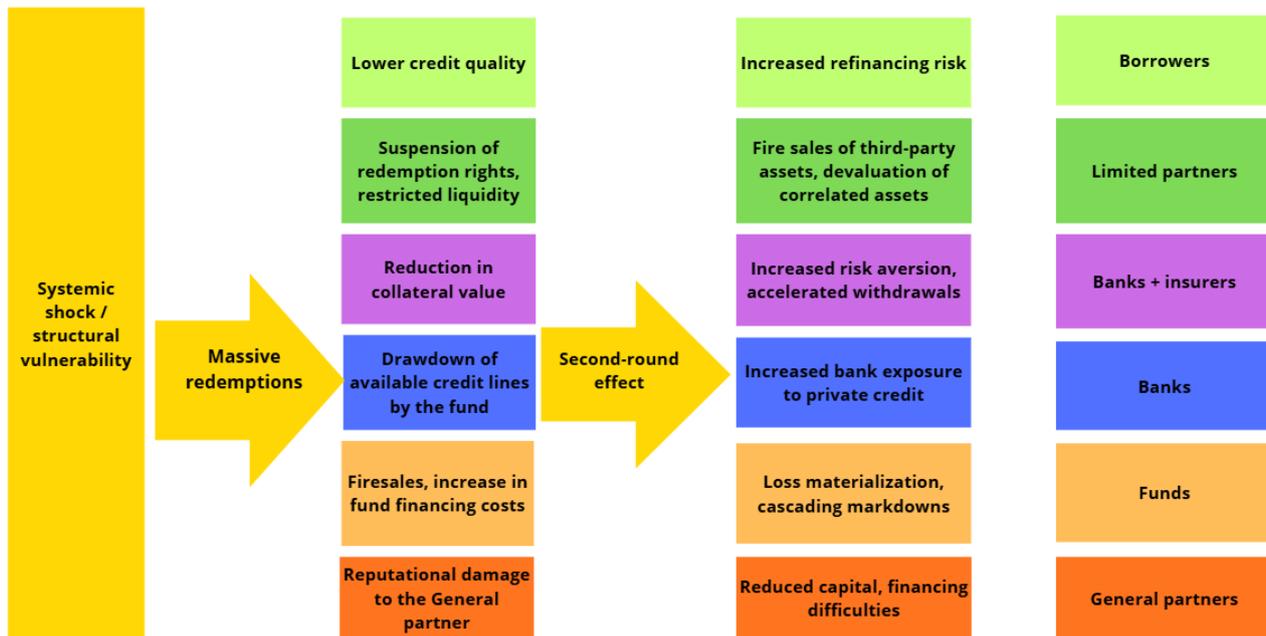
Note: Data for the fourth quarter of each year.

Most recent value: end of 2025.

Although the expectations of retail customers are better met by making early redemptions possible, it creates a risk of mismatch between the liquidity of the fund's assets (unlisted loans, which are inherently illiquid) and the liquidity of its liabilities (subscribers' capital). Due to their relatively new status, the resilience of these semi-liquid funds has never been put to the test during a prolonged economic downturn. A market downturn could trigger a very substantial number of redemption requests from subscribers, thus forcing the fund manager to precipitously sell part of its assets at distressed prices. By way of a retroactive feedback loop, these forced sales would likely accentuate market participants' risk aversion and reduce liquidity even further. To mitigate this risk, ELTIF 2 requires asset managers to put in place liquidity management tools, such as the implementation of a redemption percentage cap for a defined period or the creation of liquid asset pockets within the fund. Asset managers may also draw on any credit lines available to meet redemption requests, which in turn could increase their refinancing risk and strengthen their interconnections with the rest of the financial system.

¹⁶² One of the largest is the BCRED fund, managed by Blackstone, which has assets under management of USD 79 billion.

Diagram 2.2: Transmission of a liquidity shock on the private credit market



Source: Banque de France.

2.2. Proliferating interconnections with the banking and insurance sectors

The rapid expansion of the private credit market has brought with it the development of multiple types of interconnections between non-bank lenders and the rest of the financial system. Acharya et al.¹⁶³ argue that the growing importance of private credit funds and, more broadly, non-bank financial intermediaries (NBFIs), does not correspond to a simple migration of risk away from banks, but rather reflects a gradual reconfiguration of risks through cross-exposures between banks and NBFIs and the joint evolution of their business models. This dynamic of reconfiguration, which appears to be more advanced in the United States than in Europe, can have positive effects, notably by enabling banks to optimise their capital requirements and by strengthening the financial system’s overall capacity to support the economy. However, it also gives rise to new vulnerabilities for both the banks and the funds, which must be properly measured and managed by intermediaries. Banks’ exposure to private credit funds remains low relative to their total assets, but their rapid growth and the increasing complexity of the interconnections between players demand greater transparency for the authorities and the market.

Competition and partnerships: an evolving balance between banks and funds in the corporate finance market

While the growth in private credit has seen investment funds gain ground in certain segments traditionally occupied by banks, the dynamics of competition have had a balancing effect between the different modes of financing. In 2024, borrowers took advantage of improved financing conditions in the syndicated bank loan and public bond markets to refinance private credit.¹⁶⁴ These developments suggest that the competitive

¹⁶³ Acharya (V. V.), Cetorelli (N.) and Tuckman (B.) (2024), “Where Do Banks End and NBFIs Begin?”, April.

¹⁶⁴ According to the Alternative Credit Council, a large part of broadly syndicated loans (BSL) and high-yield (HY) bond issuance in the first half of 2024 involved the refinancing of loans originated by private credit funds (64% of the BSL market and 88% of the HY market). [Financing-the-Economy-2024 \(3\).pdf](#)

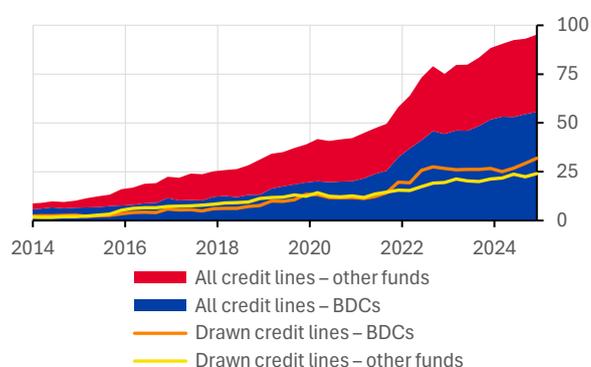
dynamic (with a cyclical dimension) between banks and credit funds will persist, as evidenced by the continued presence of banks in the leveraged loan market.

Faced with the growth of private credit, banks are also adapting by developing partnerships with private credit players, notably by implementing originate-to-distribute agreements. In concrete terms, banks draw on of their customer networks and expertise to set up loans (origination) that are then sold to private credit entities (distribution). The advantage of this strategy for banks is that they can maintain their customer relationships and increase their commission income, while making less use of their balance sheet and regulatory capital. For private lenders, originate-to-distribute agreements allow them to strengthen and diversify their credit flows. Several partnerships between asset managers and banks have been made public in both Europe and the United States. These partnerships can take several forms, ranging from simple origination by banks without any bank financing to co-investment between private credit funds and banks. Synthetic securitisation transactions fit into this logic of partnership between banks and NBFIs, as they allow them to share credit risk while maintaining their commercial relationship with borrowers (see Box 1.4).

Banks provide leverage to private credit vehicles

Bank financing supports the development of private credit. Private credit structures are increasingly making use of leverage, albeit to varying degrees (see Section 2.1), alongside a rapid growth in bank financing. The US Federal Reserve has highlighted the remarkable growth in the United States of bank lending to BDCs and other private credit funds, with committed amounts rising from USD 7.8 billion at the beginning of 2013 to more than USD 95.2 billion at the end of 2024 (although this amount remains limited compared to the USD 2,300 billion in total loans made by US banks to non-bank financial intermediaries at the end of 2024). Other estimates suggest higher loan volumes. Moody's estimates US bank exposure to private credit at around USD 280 billion and European bank exposure (including the United Kingdom) at USD 140 billion at the end of 2023. Insufficient detail in the financial statements and the complexity of the relationships between banks and funds make it difficult for the authorities to accurately measure these exposures. According to an ad hoc survey carried out by the European Central Bank (ECB),¹⁶⁵ large euro area bank exposure to private credit funds is limited but can occur at several levels of the financing chain (funds, debtor companies, investors). In general, the players most exposed to this asset class are large investment banks and the main global asset managers.

Chart 2.5: Drawn and undrawn credit lines made available to private credit vehicles in the United States
x: time/y: amount (USD billions)



Source: US Federal Reserve.
Most recent value: Q4 2024

¹⁶⁵ Buch (C.) (2025), "Hidden leverage and blind spots: addressing banks' exposures to private market funds", *The Supervision Blog*, ECB, June.

The instruments used most often consist of collateralised credit lines that intervene at various stages of the fund life and are based on different underlying assets (see Table 2.1). Some of these facilities, backed by investors' commitments or assets held in the portfolio, can be structured by special purpose vehicles (SPVs) and, in part, follow a logic similar to that of securitisation. They enable funds to adjust their liquidity, anticipate capital calls or apply leverage. In addition to their technical characteristics, these instruments carry cross-cutting risks: vulnerability to the quality of collateral, dependence on illiquid assets or assets under formation, sensitivity to valuations, and heightened exposure to liquidity pressures in the event of market stress or defaulted capital calls.

Table 2.1: Types of main banking facilities for private equity funds according to collateral used

Type of collateral	Instrument(s)	Objective	Phase of use	Structure
Investor commitments (LP/GP)	Subscription facilities	Provide immediate liquidity prior to capital calls to quickly finance investments: reducing operational delays (bridge financing) and smoothing out calls for funds	Beginning of life (initial investment phase)	Generally, direct loan to the fund (revolving credit line)
Net asset value (NAV)	NAV financing	Generate liquidity or leverage from existing assets to (re)finance investments, or distribute to investors prior to asset liquidation	Maturity (portfolio already constructed)	Generally, credit line granted via an SPV or directly to the fund
Portfolio of loans granted by the fund	Loan facilities to an ad hoc SPV linked to the fund	Leverage assets held to increase investment capacity and performance	Intermediary or fund maturity	Generally credit lines, more rarely term loans Loans via SPVs can be structured into different risk tranches (securitisation)
	Loan facilities granted directly to a BDC (United States only)		Ongoing activity for loans to BDCs	
Loans accumulated before they are securitised	Warehouse facilities	Bridge financing to “store” loans for subsequent securitisation (CLO-type)	Aggregation phase (pre-CLO)	“Temporary warehouse” SPVs

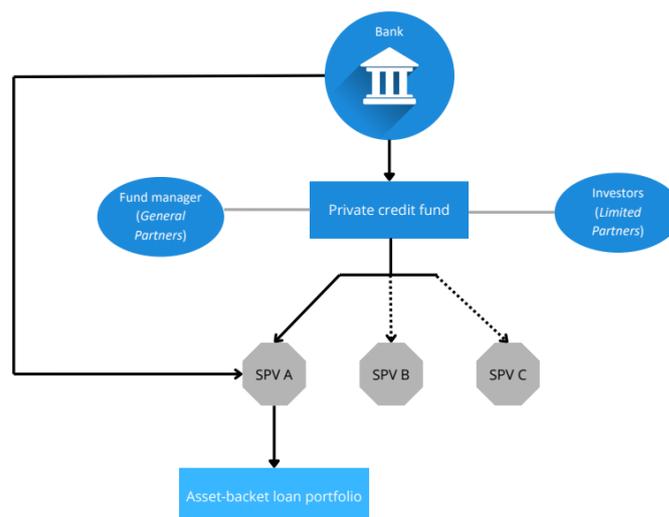
Source: Banque de France.
Note: The “phase of use” mentioned in the table refers to the economic life of the fund, not the contractual maturity of the facilities.

Structuring bank loans to private credit funds reduces risk exposure and capital requirements compared to direct loans to companies. Capital requirements for banks directly financing private credit funds are generally lower than those associated with the direct financing of underlying companies due to certain specific features of the financing granted to funds (greater loan seniority, overcollateralisation of guarantees). By choosing to finance private credit funds rather than the underlying companies, banks avoid directly bearing the credit risk of an underlying company. Risk is assessed at the level of the counterparty (fund or SPV) and the collateral received, and banks appear to treat some of these exposures as securitisation investments, thereby reducing their risk weighting compared to traditional loans and, consequently, their capital requirements. This mechanism seems to have been widely adopted by institutions in several jurisdictions, even if the regulatory frameworks applied to credit risk vary due to differences in the transposition of the Basel framework. A range of academic research on the subject,¹⁶⁶ focusing on the US market, suggests a risk weighting of close to 20% for bank financing with private credit funds. This weighting level, at least for BDCs, is due to the securitisation schemes used by banks to provide legal collateral for financing.

¹⁶⁶ See for example the description of this mechanism in [Chernenko \(S.\), Ialenti \(R.\) and Scharfstein \(D. S.\) \(2025\), Bank Capital and the Growth of Private Credit, 14 January.](#)

Banks need to have an appropriate risk management framework in place to deal with the complexity of these exposures. Even though these loans are generally overcollateralised and have seniority in the order of payment, banks are still exposed to losses in the event of an economic downturn, and the difficulty involved in valuing the loans due to a lack of information on the funds' assets can exacerbate the risk. Over and above the credit risk, these exposures could present a liquidity risk for banks if a large number of funds simultaneously drew on these credit lines during a period of tension. The ECB has stressed that it is extremely important for banks to manage the risks associated with their exposure to the unlisted markets ecosystem in a holistic manner, given the interconnections between the two.

Diagram 2.3: An example of financing for a private credit fund



Source: Banque de France.

Note: Black arrows indicate loans, dotted arrows indicate other similar investments in other SPVs.

Insurers' exposure to private credit is growing

Measuring insurers' exposure to private credit is far from clear-cut and has been the subject of a great deal of methodological research. Depending on the exhaustiveness of the coverage chosen, the concept of private credit for the insurance sector may include loans and bonds that are not listed or traded on the markets, as well as exposure to funds (specialised or otherwise) holding this type of investment. According to the definition and calculations currently used by the European Insurance and Occupational Pensions Authority (EIOPA),¹⁶⁷ insurers' private credit exposures have increased in recent years at the European level and accounted for 5.8% of total assets in the second quarter of 2025, compared with 5.1% in the fourth quarter of 2024 and the fourth quarter of 2023.

French insurers' exposure to unlisted debt securities issued by non-financial sector companies accounts for a limited proportion, at 2.8% of exposures (EUR 81 billion), mainly derived from financial sector or real estate securities. The European countries with the greatest exposures are the Netherlands (22%), Belgium (10.6%) and Germany (7.9%). However, the exposure calculation is based on a range of different forms of private credit to several sectors of the economy. At the European level, only 25% of the total exposure measured by EIOPA relates to financing of the non-financial sector, excluding individuals. Loans to individuals, which are very

¹⁶⁷ EIOPA (2025), [Financial Stability Report](#), 15 December, pp. 11 et seq.

marginal among French insurers, account for 32% of total European exposures, while 24% of exposures are to the financial sector and 7% are intra-insurance sector exposures (e.g. subordinated debt).

Under the Solvency II framework, the differences in treatment between private debt and bonds arise from the capital charge calculation for interest rate risk for the former and spread risk for the latter. Loans, on the other hand, are subject to counterparty risk. Unrated debt (that does not have a credit rating from any rating agency, such as private debt) is subject to lower spread shocks than high-yield bonds. For example, for unrated debt with a 10-year maturity, the shock would be 23.5%, compared with 35% for a BB-rated bond and 58.5% for bonds with a lower rating. The low liquidity of the unlisted debt market may lead to significant discounts in the event of a forced sale. However, this situation remains hypothetical in the case of insurers, as most often they apply hold-to-maturity strategies. These securities are also held as diversification assets alongside more liquid securities.

Heightened complexity of fund financing driven largely by the US market

US private credit funds have been turning to structured bond instruments more intensively to raise capital and optimise returns. In addition to bank lending, private credit funds can issue debt securities to finance themselves and increase their leverage. The characteristics of these instruments are presented in Table 2.2. In the case of private credit collateralised loan obligations (CLOs), loans originated by a private credit fund are pooled in a securitisation vehicle, which finances their acquisition by issuing tranches of debt and equity with different seniority. The cash flows generated by the underlying loans are redistributed according to a predefined hierarchy, with the most senior tranches benefiting from priority payment and lower risk. In practice, private credit CLOs are generally backed by loans originated by funds managed by the same manager. The funds or their managers frequently retain the most subordinated tranche (equity), remaining exposed in the first instance to potential losses. In the United States, private credit CLO issuances now account for nearly 20% of the total CLO market, up from 5% in 2015. The European market is still in its very early stages: market participants consider that the diversification conditions necessary for private credit funds to issue CLOs are more difficult to meet in Europe due to the smaller size of eligible portfolios and the shallower market depth. At the same time, private rated notes (PRNs), which are private bonds issued by funds with private ratings (not made public), are expanding rapidly, particularly in the United States. They offer higher yields than traditional investment grade bonds (around 100 basis points) and now represent outstanding amounts of approximately USD 422 billion, mainly on the balance sheets of US life insurers.

Instrument	Structure	Objectives	Technical characteristics	Estimated market size in 2024
Private credit CLOs (or middle market CLOs)	Portfolio of leveraged loans originated by the funds, securitised by an SPV issuing several bond tranches.	Raise capital and create attractive rated assets for institutional investors.	<ul style="list-style-type: none"> - Larger equity tranches and smaller AAA tranches than in traditional CLOs. - More senior and guaranteed portfolios; fewer covenant-lite agreements. - Frequent retention of the equity tranche by the manager. 	In the United States, approximately USD 200 billion out of a total of USD 1,000 billion.
Private credit CFOs	Portfolio of private credit fund units refinanced by an SPV issuing bond tranches.	Generate liquidity, accelerate distributions to investors and obtain investment grade tranches.	<ul style="list-style-type: none"> - Typical tranches: senior A+, junior BBB. - Overlay debt on already leveraged portfolios. - Valuation based on internal models and reported data. 	Expanding market, volumes difficult to estimate.
PRNs	Bonds issued by a master or feeder fund, privately rated by an agency.	Enable bond investment in line with prudential constraints.	<ul style="list-style-type: none"> - Private rating not published. - Solvency II-compatible bond format. - Frequently used in intra-group structuring. 	Approximately USD 422 billion held mainly on the balance sheets of US life insurers.

Source: Banque de France.

These instruments meet institutional investors' demand for rated assets, but could increase the complexity – and reduce the transparency – of the private credit ecosystem thereby amplifying the transmission of potential shocks. This development is part of a trend generated by strong demand from institutional investors, particularly US life insurers, for investment-grade rated assets rather than fund units due to more favourable prudential treatment. However, these instruments appear to be less liquid and more difficult to value than traditional bonds. Private credit CLOs are generally backed by riskier loans and have a less active secondary market than traditional CLO syndicated loans. Other structures, such as private credit collateralised fund obligations (CFOs), involve the creation of additional layers of debt, which complicate the interpretation of real economic leverage and limit the authorities' ability to monitor developments.

The lesser degree of transparency around these transactions is also illustrated in the case of PRNs by the risk of “ratings shopping”, as issuers may be tempted to approach the agency most likely to assign a favourable rating or to structure their portfolios accordingly. These factors have prompted the US insurance regulator to raise concerns regarding transparency, governance and the quality of the signalling provided by the ratings.

Box 2.2: Asset-intensive reinsurance operations and links with unlisted asset markets

By Frédéric Ahado and Raphaël Gorrard

The interconnections between private asset managers and life insurers in the United States have grown significantly. This trend has notably been driven by the increase since 2010 in the proportion of US life insurers owned by private asset managers, which has seen a rise in holdings of less liquid and more complex alternative assets, such as private assets and CLOs. Furthermore, there has been a surge in reinsurance agreements in the life insurance market in the United States that exploit regulatory differences between jurisdictions. Although they are rarely seen in Europe, these dynamics are likely to complicate the analysis of interconnections in the private credit ecosystem and its links with insurers.

Reinsurance operations are transactions in which an insurer transfers part of its risks associated with insurance policies (mortality, claims, etc.) to a reinsurer. Asset-intensive reinsurance transactions are reinsurance agreements under which the financial assets and their management are also transferred to the reinsurer. In addition to the risk associated with the insurance contract, the reinsurer also bears the financial risk associated with the management of assets previously held by the insurer. These asset-intensive reinsurance operations¹⁶⁸ lead to the transfer of the management of large volumes of assets to a reinsurer, often based in a third country. They involve life insurance portfolios (savings, retirement plans) whose profitability has deteriorated during the period of low interest rates and for which the level of guarantees (e.g. via guaranteed rates) represented a significant burden for insurers given the return on traditional assets. The reinsurer may then invest the transferred assets in unlisted securities or funds managed by an asset manager affiliated to the reinsurer, while the cedant may also have a hand in defining the investment strategy to be implemented.

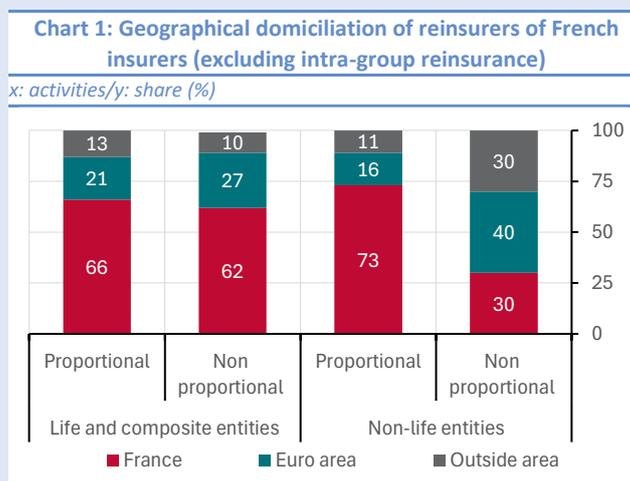
The development of these forms of reinsurance has coincided with the growth of investments in unlisted assets, including private credit assets, in order to support portfolio returns by taking advantage of liquidity premiums, as life insurance portfolios represent very long-term commitments. In particular, the increase in these transactions has gone hand-in-hand with an expansion of affiliate relationships between private asset managers and insurers, mainly in the United States.¹⁶⁹ This dynamic allows asset managers to capture the financial flows associated with life insurers, which can be reinvested in assets issued by private credit

¹⁶⁸ Garavito (F.), Lewrick (U.), Stastny (T.) and Todorov (K.) (2024), “[Shifting landscapes: life insurance and financial stability](#)”, BIS Quarterly Review, September.

¹⁶⁹ In some cases, the implementation of these reinsurance operations has been preceded by the asset manager’s acquisition of the insurer itself.

funds linked to the same manager.¹⁷⁰ In addition to the investment synergies offered by asset managers, these reinsurance mechanisms can exploit the loopholes between the different prudential and tax regimes in the various jurisdictions.

Bermudian reinsurers are the main players in the asset-intensive reinsurance market, and their services are mainly used by insurers located in the United States. According to a report published by the Bermuda Monetary Authority in March 2025,¹⁷¹ the United States accounts for 70% of transactions carried out by Bermudian reinsurers, while Europe (excluding the United Kingdom) accounts for only 2%. However, this type of transaction is rare or non-existent in France, where reinsurance is generally organised domestically and in-group. The reinsurance of certain activities may have an international dimension, but in general, French insurers have little dependence on reinsurers domiciled outside the euro area: excluding intra-group reinsurance, premiums ceded to non-euro area reinsurers accounted for around 14% of cessions. However, this proportion rises to 30% for non-proportional reinsurance¹⁷² of non-life activities (mainly general liability and property insurance), particularly in Switzerland, the United Kingdom, Bermuda and the United States. Only 13% of life and mixed insurers' operations are affected (almost exclusively in proportional insurance), mainly on their health and death and disability activities and only marginally on euro-denominated life insurance (see Chart 1).



2.3 The restructuring process is continuing

In an increasingly competitive environment, credit risk is intensifying

The credit risk associated with this asset class has evolved in line with changing interest rates, the uncertain macroeconomic environment and a shifting borrower population. In addition to the movement towards the large corporate segment and transactions involving large financing volumes, the levels of leverage mobilised by companies financed in new private credit transactions have also increased slightly. In Europe, the share of financing granted to companies with debt leverage of more than 5x EBITDA rose from 12.2% of new transactions in the first quarter of 2025 to 17.9%,¹⁷³ though still below 35% observed in 2022. Credit quality

¹⁷⁰ Carlino (S.), Foley-Fisher (N.), Heinrich (N.), and Verani (S.) (2025). "Life Insurers' Role in the Intermediation Chain of Public and Private Credit to Risky Firms", FEDS Notes. Washington: Board of Governors of the Federal Reserve System, March 21.

¹⁷¹ Bermuda Monetary Authority (2025), *Insights and Reflections on Asset Intensive Reinsurance in Bermuda*, March.

¹⁷² Under proportional reinsurance (e.g. quota share treaty), the insurer transfers to the reinsurer the same percentage, up to 100%, of (i) premiums, (ii) claims and (iii) technical provisions. Conversely, in a non-proportional reinsurance treaty, the reinsurer only intervenes after a certain number of claims has been reached (threshold effect). These non-proportional agreements are well-suited to the transfer of catastrophe risks (particularly in non-life insurance), while proportional treaties result in the outsourcing of part of the business to the reinsurer. Asset-intensive reinsurance generally involves proportional treaties.

¹⁷³ Deloitte (2025), *Private Debt Deal Tracker Europe*, autumn.

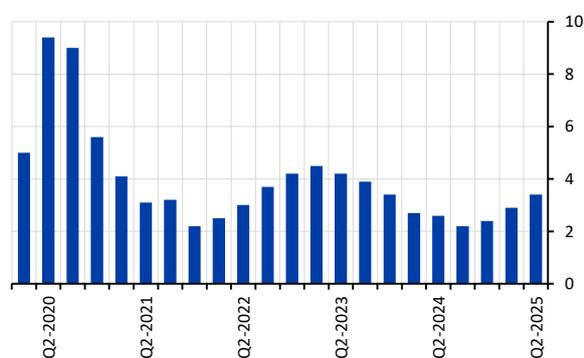
remains relatively low, concentrated around BB and B ratings, while the borrower population appears focused on a few sectors with high growth potential, which could increase the risk of correlated defaults.

Furthermore, the development of the private credit market and the accumulation of uninvested capital (“dry powder”) have led to intensified competition between lenders. Several market players mention that the development of perpetual BDCs, with continuous fundraising, has contributed to this intensification because, unlike traditional funds, the capital raised is immediately available. In these circumstances, managers of unlisted assets may be prompted to relax their financing standards, for example by reducing the number of financial covenants associated with medium-sized transactions,¹⁷⁴ bringing the terms of these types of financing closer to those of syndicated bank loans. This appetite for risk has recently been confirmed by the spreads on these transactions compressing, now rarely exceeding SOFR + 500 basis points, in sharp decline from 2024.

At the same time, loan repayment and interest payment facilities have evolved, with developments such as interest capitalisation or payment-in-kind (PIK). PIKs can be implemented at the origination of the loan, thereby allowing the leverage associated with the transaction to be increased or allowing the borrower to avoid default when experiencing repayment difficulties. For private lenders, these facilities are a competitive selling point, but they can also contribute to obscuring credit risk and delaying defaults, particularly when they are implemented on a discretionary basis during the term of the contract. Thus, while private credit defaults remain below 1.5% of outstanding loans in the United States, the default rate including selective defaults (i.e. loan restructuring, covenant breaches and recourse to PIKs) exceeds 4% (see Chart 2.7). Furthermore, the uncertain macroeconomic environment has served to exacerbate the difficulties faced by certain debtor companies, exposing private credit vehicles to heightened credit risk.

Chart 2.6: Default rates on direct lending covenants in Europe

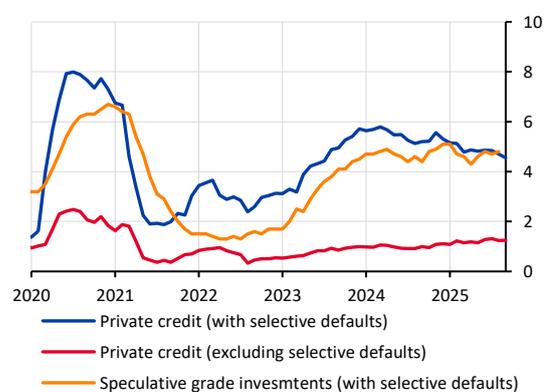
x: year/y: default rate (%)



Source: Lincoln International.
Most recent value: Q2 2025.

Chart 2.7: Default rates on private credit and speculative-grade financing in the United States

x: year/y: default rate (%)



Source: S&P Global.
Note: Selective defaults include breaches of covenants and borrower recourse to interest capitalisation (payment-in-kind).
Most recent value: September 2025.

In this context, the increasing complexity of the financing strategies employed by private credit funds is likely to mask debtors’ vulnerabilities. Recent credit incidents in the United States (see Box 2.3) have highlighted the risks associated with the use of opaque off-balance-sheet financing and the importance of maintaining strict credit standards and transparency in the market.

¹⁷⁴ In general, the largest transactions are not subject to covenants.

Box 2.3: The First Brands and Tricolor bankruptcies and the risks associated with the lack of transparency in private credit

By Edith Stojanovic

At the end of September 2025, the successive bankruptcies in the United States of the subprime auto lender, Tricolor, and the autoparts supplier, First Brands, brought to light some of the vulnerabilities associated with the credit market and the proliferating interconnections between banking and non-banking players. These two US companies had resorted to multiple and varying forms of financing provided by banks (through syndicated loan and credit line intermediaries) and private credit, part of which involved alleged collateral fraud. Collateralised financing (an asset-based finance strategy) can be backed by any type of real assets, which therefore may include infrastructure, inventory or machinery, but can also be backed by factoring or reverse factoring mechanisms through which a company offers a factoring solution to its suppliers for their receivables. When First Brands filed for bankruptcy after failing to secure refinancing, in addition to its on-balance sheet debt of USD 6 billion, the company also owed approximately USD 6 billion obtained through off-balance sheet financing arranged through factoring and exposures that were greatly underestimated by lenders, for which First Brands is accused of fraud. Tricolor is accused of having pledged the same assets more than once as collateral to obtain financing from banks and private credit funds.

These two bankruptcies were not solely linked to players in the private credit market, and their impact was propagated throughout the financial system due to cross-exposures. Several banks were affected, notably J.P. Morgan and Barclays, whose exposures to Tricolor's debt amounted to USD 200 million and USD 110 million, respectively. Some banks took a hit by way of their private credit vehicles. A Jefferies fund held USD 715 million in receivables and invoices due linked to First Brands, while the exposure of a UBS private credit fund totalled USD 500 million. Numerous asset managers were also exposed through loans or holdings of tranches of collateralised loan obligations (CLOs), securities backed by portfolios of syndicated leveraged loans, meaning that 43% of CLOs in the United States held positions in First Brand.¹⁷⁵ The level of exposure per CLO was mostly moderate, although in 13 cases it exceeded 1% of the CLO's total portfolio. While the buffering from over-collateralisation helped to offset the losses, these incidents highlighted the risks of contagion associated with the widespread dispersion of these companies' debt within the financial ecosystem, resulting from their ability to borrow through multiple channels, from numerous players, under very flexible lending conditions.

These two incidents illustrate the vulnerabilities associated with debt strategies based on complex and opaque financing, in which several creditors were unable to obtain a comprehensive view of their debtors' commitments. The First Brands case particularly highlights the importance of ensuring transparency and sound information for lenders in a factoring system. In France and Europe, this strategy is mainly handled by banks and their subsidiaries,¹⁷⁶ with little demand addressed to private credit funds. This calls more generally for strict investment selection and monitoring of collateral quality in the broader asset-based finance segment. Many market players see this private credit strategy, which can cover a wide variety of collateral, as an important growth driver for the private credit market, even if it remains relatively underdeveloped in France. While these two bankruptcies were isolated incidents and did not precipitate a wave of corporate defaults, they illustrate the vulnerabilities associated with rapidly developing complex financing strategies and the growing interconnections between players.

¹⁷⁵ Fitch Ratings (2025), "[US BSL CLO default exposure rises again after First Brands default](#)", 10 October.

¹⁷⁶ Banque de France, « L'affacturage », *Le Référentiel des financements des entreprises*, [fiche 422](#).

Private credit: a certain resilience across cycles

Private credit, in its traditional form, is perceived as less sensitive to short-term economic fluctuations than the bank credit and syndicated loan markets or bond markets. Indeed, due to a longer investment horizon than that of the investors in these segments, coupled with a large amount of dry powder, closed-ended private credit vehicles can provide financing without suffering from redemptions or devaluations before the initially set maturity date. These players were thus able to continue providing financing in March 2020 during the health crisis, at a time when bank lending and bond issuance contracted significantly.¹⁷⁷ Furthermore, private credit showed a certain resilience during the period of monetary tightening that began in 2022, and gained market share relative to syndicated bank credit during the period, largely replacing it for LBO financing. However, this development also saw higher spreads for financing of this type during the period (around two-thirds of LBO financing in 2022 was above the SOFR + 600 basis points threshold, compared with less than 10% today).

However, recent developments in private credit are likely to increase the vulnerability of the sector and its borrowers to an economic downturn. First, the growing use of semi-liquid vehicles to attract retail client investments exposes private credit funds to redemptions, although these are generally limited by liquidity management tools. Despite a high level of uncommitted capital (29.3% globally according to PitchBook), a wave of redemptions could force funds to draw on their bank credit lines to meet demand and thereby transmit the shock to the banking sector. Second, the increased leverage of private credit funds makes them vulnerable to the availability of bank credit.

In its current form and volume, private credit has not yet been subjected to a shock that would allow its implications for the financial system across cycles to be assessed. In terms of financial stability, it would be useful to be able to assess the extent to which private lenders' credit and liquidity risks are exposed could be transferred to the balance sheets of banks and insurers in the event of a shock. The variety, complexity and lack of transparency of the interconnections between private credit players and the rest of the financial system prevent such risks from being quantified at this stage, but a stress test exercise focused on a scenario affecting private markets could provide a better understanding.

Market diversification, with the emergence of new segments, driven by investment requirements in the artificial intelligence sector

Several market players expect the asset-based lending (ABL) strategy to accelerate. This strategy is underpinned by loans secured by real assets, such as real estate, aircraft or infrastructure, but also intangible assets, such as music rights. ABL is considered a more secure option than direct unsecured lending, and the largest private credit managers have actively targeted its development, devising structures for the granting of these complex products. This strategy is still rather underdeveloped in France, where it accounts for around 1% of funds raised¹⁷⁸ and often takes the form of leasing contracts, whereby funds lease assets (such as machinery or infrastructure) to companies. As the strategy develops, analysing the risks to which lenders are exposed is likely to become more complicated (see Box 2.3).

The boom in investment in artificial intelligence (AI) and data centres has become a significant driver of this new demand for structured debt, creating new "debt hotspots" bundling together illiquid assets. Sustained demand for infrastructure debt, directly linked to the rapid development of data centres, is one factor likely to drive demand for ABL and other private financing. Debt issuance by Big Tech and AI companies accelerated sharply in 2025: between September and October 2025 alone, USD 75 billion of investment-grade debt was issued by the sector (including USD 30 billion from Meta and USD 18 billion from Oracle). In addition, AI-related direct private credit activity is estimated to have nearly doubled in the 12 months leading up to November 2025, as illustrated by a record USD 27 billion deal struck between Meta and asset manager Blue Owl Capital

¹⁷⁷ International Monetary Fund (2024), "The rise and risks of private credit", *Global Financial Stability Review*, April.

¹⁷⁸ According to France Invest, *Activité des fonds de dette privée en 2024*.

to finance a data centre, using a complex structure that keeps the debt off-balance sheet. These financing strategies often include hybrid arrangements, including debt and equity financing.

Conclusion

To guarantee the resilience of a booming private credit market, several areas of action should be prioritised, starting with transparency. A substantial improvement in the availability of data for market participants and authorities is essential in order to reduce information asymmetries and better map exposures, whether in terms of fund portfolios, cross-border flows or links between banks and non-bank entities. This improvement in transparency should enable stakeholders to gain an overview of the risks to which they are exposed. This is a particularly important issue for banks, whose exposure to this ecosystem could be felt at several levels. While market resilience has not been tested in periods of prolonged tensions, the increase in vulnerabilities linked to liquidity mismatches and leverage necessitates closer monitoring. Particular attention must be paid to the liquidity risk of funds, especially for structures intended for retail clients, in order to ensure their ability to meet redemption requests in a deteriorating environment. In the European Union, the ELTIF 2 framework has set out requirements for liquidity risk management. Its effectiveness will need to be monitored closely as these products develop. Lastly, the increasing complexity of private credit fund financing arrangements, primarily in the United States, with structured product issuances, highlights the need for an enhanced rating-methodology framework and, given the cross-border nature of the market, close international cooperation.

Technical appendix: securitisation

Definitions

Significant risk transfer

Significant risk transfer (SRT) refers to securitisation transactions recognised by the competent prudential banking supervisor that can be used by a bank as a regulatory capital relief strategy. Articles 244 and 245 of the Capital Requirements Regulation (CRR, the current regulatory framework) specify these criteria and the conditions under which significant risk transfer may be recognised. In practice, two mechanical tests are often used, depending on the structure chosen for the transaction: (i) the “mezzanine” test, whereby the originator must transfer at least 50% of the risk-weighted exposure of all mezzanine securitisation positions in the transaction; or (ii) the “first loss” test, whereby the originator must transfer at least 80% of the exposure value of the first-loss tranche.

The European STS framework

A growing proportion of SRT securitisations also meets the criteria for the European “Simple, Transparent and Standardised” (STS) label.¹⁷⁹ This label has been in force since 2021 and guarantees that several cumulative criteria have been met, thereby assuring investors of a high level of quality and standardisation in the structuring of transactions and further enhanced transparency thanks to the provision of supplementary information. The prudential benefits that recognition of this label brings to banks investing in this type of product include reduced capital charges and improved liquidity treatment. This type of securitisation accounts for 88% of French banks' issues, compared with 51% for other Single Supervisory Mechanism (SSM) banks in 2025.

True sale or synthetic securitisation

The two definitions mentioned above are likely to apply to the two categories of securitisation discussed in Box 1.4:

Cash or true sale transactions, in which originators pool financial assets (loans, receivables) and then sell them to an ad hoc entity (typically a vehicle set up for this purpose)¹⁸⁰ which finances the acquisition of the pool by issuing negotiable debt securities with varying levels of seniority. During the life of the transaction, the cash flows generated by the underlying assets are collected by the vehicle and redistributed to investors according to the seniority of the security tranches. In this arrangement, the credit risk initially borne by the originator is thereby transferred – at least in part – to the investors who have acquired the newly issued securities, which also helps to refinance the originator.

- **Synthetic or “on-balance” transactions**, in which the financial assets remain on the originator's balance sheet and the credit risk associated with the underlying exposure is transferred to investors through the use of credit derivatives or financial guarantees. These transactions can be carried out (i) without the use of an ad hoc vehicle (thereby reducing structuring costs), (ii) privately (thus preserving the confidentiality of the transaction and the commercial relationships established by the originating institution) or alternatively (iii) by using either ex ante funded credit protection¹⁸¹ or unfunded credit protection.¹⁸² Under funded credit protection, the protection provider uses collateral to secure the protection. The European regulatory framework explicitly requires funded credit protection – except

¹⁷⁹ Regulation (EU) 2017/2402 of the European Parliament and of the Council of 13 June 2024 on securitisation (SECR).

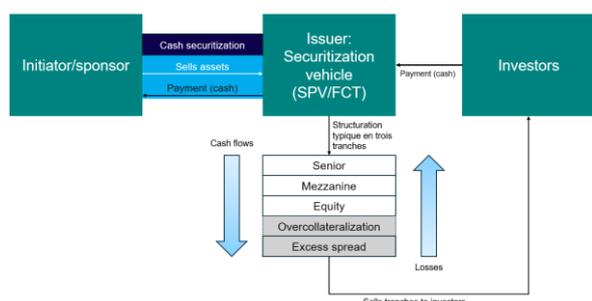
¹⁸⁰ Most commonly special purpose vehicles (SPVs) or securitisation special purpose entities (SSPEs).

¹⁸¹ In practice, most often through the issuance of credit-linked notes (CLNs). A CLN is an instrument that transfers credit risk to the investor, usually via a credit derivative contract included in the arrangement, but sometimes by means of a guarantee or other risk transfer contract, so that reimbursement is dependent on the occurrence of a credit event. These credit protections are financed by the proceeds of the issue paid by investors.

¹⁸² In practice, by taking unsecured guarantees or using derivatives.

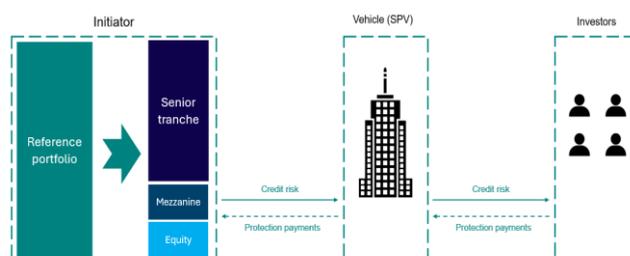
in specific cases of supranational or multilateral guarantees – for STS transactions. Synthetic securitisation transactions are one of the tools available to banks for managing their credit risk, notably along with credit default swaps (CDS), funded guarantee products and credit insurance. Unlike a CDS, which transfers the entire credit risk of a given exposure, synthetic securitisation allows the risk of an asset portfolio to be split into several tranches, some of which are retained by the bank while others are transferred to investors.

Diagram A.1: A true sale securitisation transaction



Sources: FSB, ACPR.

Diagram A.2: A synthetic securitisation transaction



Source: ESRB.

Note: For purposes of simplification, this diagram illustrates a synthetic securitisation transaction without collateral (i.e. an unfunded protection situation).

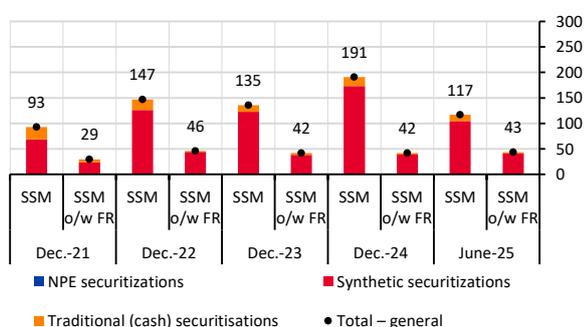
Description of the market

Dynamic issuance activity

The dynamic issuance activity (see Chart A.1) mentioned in Box 1.4 is reflected in an increase in the outstanding amount of SRT securitisations, which amounted to EUR 558 billion for euro area banks (including EUR 152 billion for French institutions) in the first half of 2025, compared with EUR 339 billion in 2021. Furthermore, euro area banks' synthetic SRT issuance accounted for 58%¹⁸³ of synthetic securitisation issuance worldwide.

Chart A.1: SRT issuance by transaction type

x: year of issuance/y: amounts issued (EUR billions)



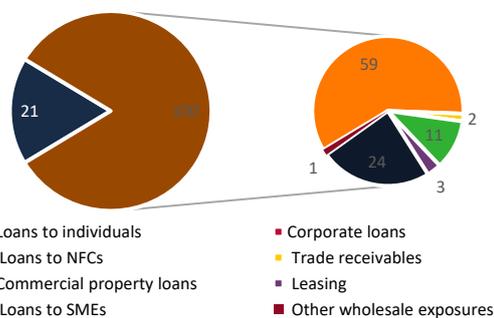
Source: COREP reporting.

Note: Issuance includes all tranches, including those not retained by the institution.

Most recent value: Q3 2025.

Chart A.2: Type of loan counterparty making up SRT securitisations in the sample of 23 euro area banks

as a % of total loans in SRTs



Source: COREP reporting.

Note: The diagram on the left shows the breakdown between loans to individuals and corporate loans. The diagram on the right shows the breakdown of corporate loans.

Most recent value: Q3 2025.

¹⁸³ Source: International Association of Credit Portfolio Managers (IACPM).

Underlying assets

The exposures underlying issued SRT securitisations are largely made up of corporate loans (accounting for 79% in June 2025 for all SSM banks; see Chart A.2). The remaining underlying exposures, consisting of loans to households, are mainly consumer loans (9.4% of total exposures) and property loans (7.3% of total exposures). While the majority of counterparties that have taken out the loans that have been securitised are European, a significant proportion also come from the United States (21% for other European banks and 6% for French banks), exposing euro area investors to transatlantic credit risk.

The underlying loan portfolio has a low default rate,¹⁸⁴ which declined for euro area banks between 2023 and 2025 (down 0.5 percentage points, to 1.7%). The predominance of corporate loans in securitised outstanding amounts is notably due to banks seeking to strengthen their capital management, as these loans are subject to higher weightings in the capital requirement calculation. Securitisation also serves a risk management purpose as it allows banks to transfer part of their credit risk and thus reduce their exposure to specific risk classes, while also allowing them to maintain their commercial relationship with the customer, which is particularly important for corporate loans.

Supervisor verification of risk transfer

The European regulatory model explicitly makes the capital relief permitted by an SRT transaction conditional upon ex ante validation by the competent supervisor, which in most cases, given the size of the institutions concerned, is the SSM. This approach is unique to the European system: it is not provided for in the Basel standards and has not been legally adopted by all jurisdictions. Alongside other mechanisms, notably the supervisory review and evaluation process (SREP), it automatically strengthens the supervisory capacity and right of oversight of the competent European authorities over transactions eligible for capital relief. Furthermore, the regulatory requirements governing the conditions for granting securitised loans¹⁸⁵ require originators to apply the same credit granting criteria and procedures to exposures to be securitised as they would to non-securitised exposures, thereby reducing moral hazard. This moral hazard is further mitigated by the significant interest in securitised exposures retained by euro area banks (21% in the first quarter of 2025, well above the regulatory threshold of 5%).¹⁸⁶

Monitoring interconnections associated with the expansion of securitisation

SRT securitisations are most often carried out through private placements,¹⁸⁷ making it more difficult for the authorities to monitor the market as a whole (95% private placements for French banks). This is mainly due to the predominance of synthetic securitisations negotiated bilaterally between banks and protection providers.¹⁸⁸

The interconnections associated with securitisation are still difficult to measure accurately. Investors in synthetic securitisation transactions include non-bank financial intermediaries (NBFIs) such as investment funds, particularly credit funds, insurance undertakings and pension funds. Some investors in synthetic securitisation use bank financing, particularly in the form of repos, which increases leverage in the market and reinforces the interconnections between banks and the NBFIs. Public and parapublic sector players, led by the European Investment Fund (EIF), are major investors in synthetic securitisation in Europe. This type of investor

¹⁸⁴ The default rate does not include NPE (non-performing exposure) securitisation.

¹⁸⁵ Article 9 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 13 June 2024 on securitisation (SECR).

¹⁸⁶ Article 6 of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 13 June 2024 on securitisation (SECR).

¹⁸⁷ A private placement is a securitisation transaction in which the securities are not offered to the public but are placed directly with a restricted number of qualified investors. This format allows for tailor-made structuring and increased confidentiality. It also facilitates the maintenance of long-term relationships between the originator bank and experienced investors. A private placement can therefore help to meet the requirements for significant credit risk transfer more effectively.

¹⁸⁸ According to Regulation (EU) 2016/867, the protection provider is the counterparty that grants protection against a contractually agreed negative credit event and that bears the credit risk of the negative credit event. This risk transfer can be achieved through a CDS, for example.

action responds to the explicit objective of supporting the financing of the economy through bank credit: by reducing banks' capital requirements, these investments enable them to grant new loans.

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