EUROPEAN CENTRAL BANK
EUROSYSTEM

COVID-19 and the liquidity crisis of non-banks: Lessons for the future

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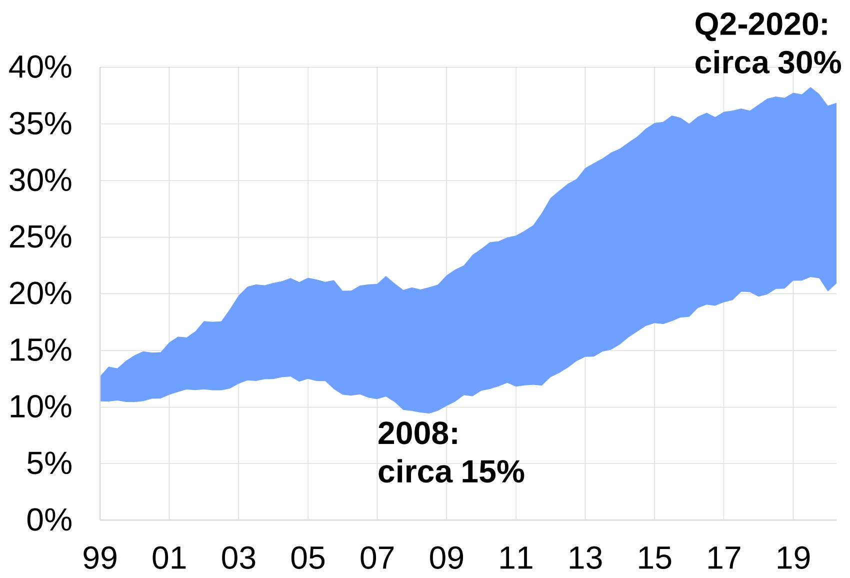
Significant changes in the euro area’s financial sector landscape

Non-bank credit in the euro area

(percentages)

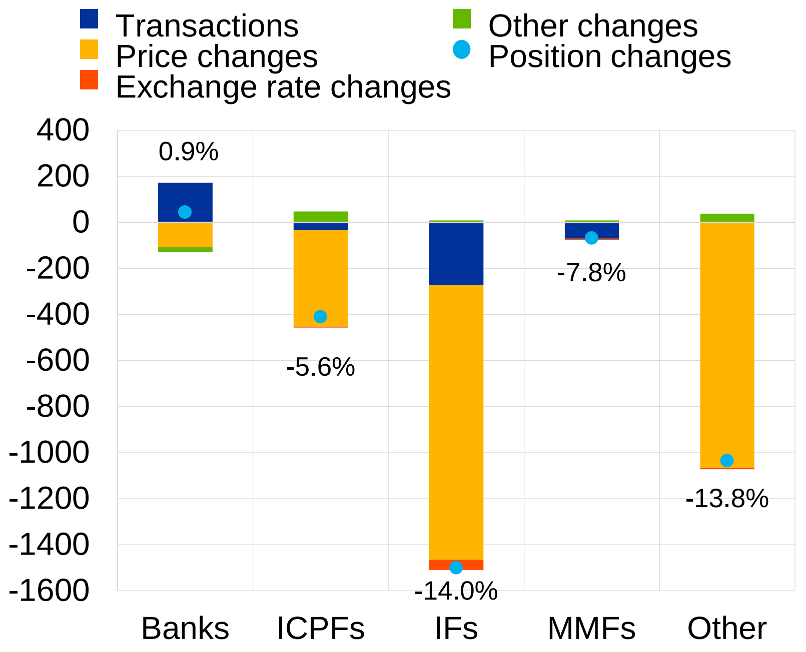


Sources: Euro area accounts, BSI statistics, FVC statistics and ECB calculations.
Notes: The chart shows non-bank credit, which is the share of credit provided by the non-bank financial sector to euro area NFCs relative to bank and non-bank credit, irrespective of whether that financing is provided through loans or purchases of debt securities. Upper bound estimates include a residual of OFIs, while lower bound estimates exclude this. Numbers in the text boxes refer to the rounded mid-point between lower and upper bound.

Procyclical selling by euro area non-banks in the face of large outflows

Price and volume changes in bank and non-bank security portfolios

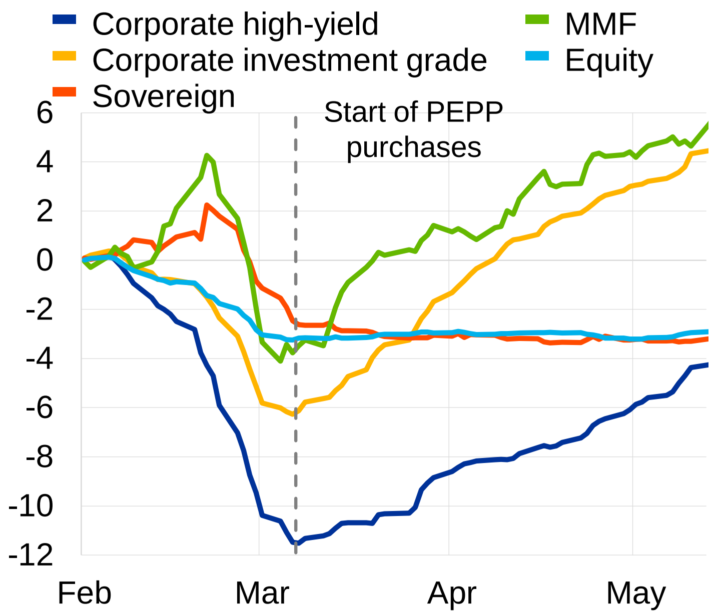
(2020Q1 vs. 2019Q4; € billions and % of securities portfolios)



Source: SHSS and ECB calculations.

Cumulative flows in euro area-domiciled funds

(percentages of assets under management)

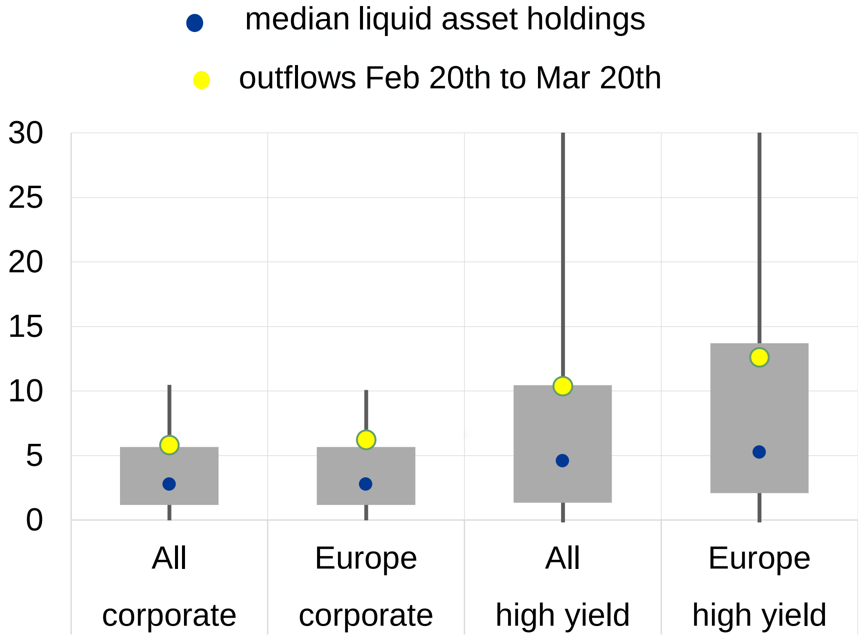


Source: EPFR Global.

Liquidity mismatch and leverage resulting in forced asset sales

Outflows and liquid assets of EA corporate bond funds

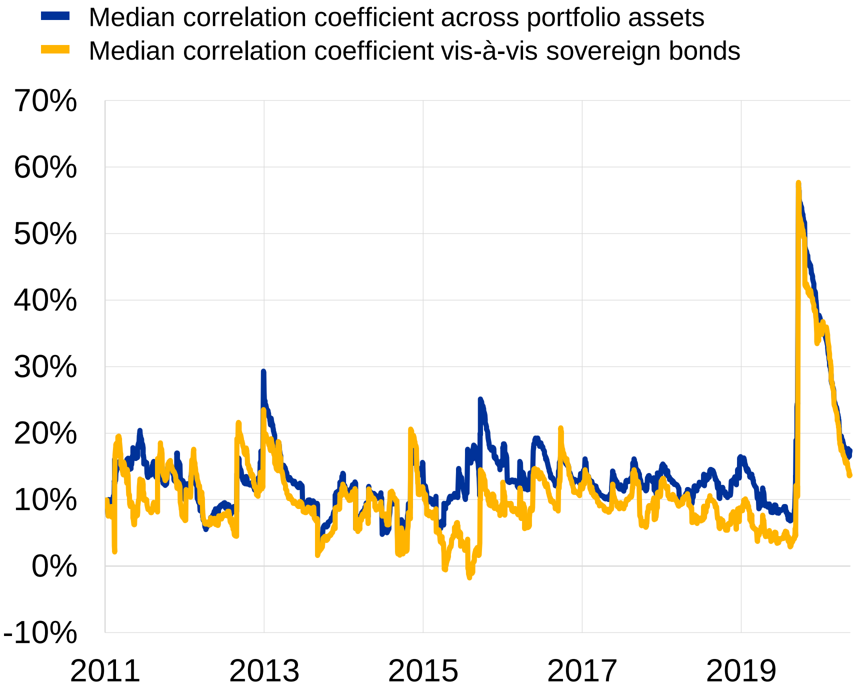
(percentages of total assets)



Source: EPFR Global, Refinitiv and ECB calculations.
Notes: Liquid assets include cash and HQLA (high-quality liquid assets) bonds on Dec-2019. Data refer to euro area-domiciled bond funds only. "Europe corporate" and "Europe high yield" refer to euro area-domiciled funds which primarily invest in European bonds. "Corporate" refers to investment-grade corporates. Box plots show ranges from 25th to 75th percentiles.

Cross-asset correlations

(percentages)

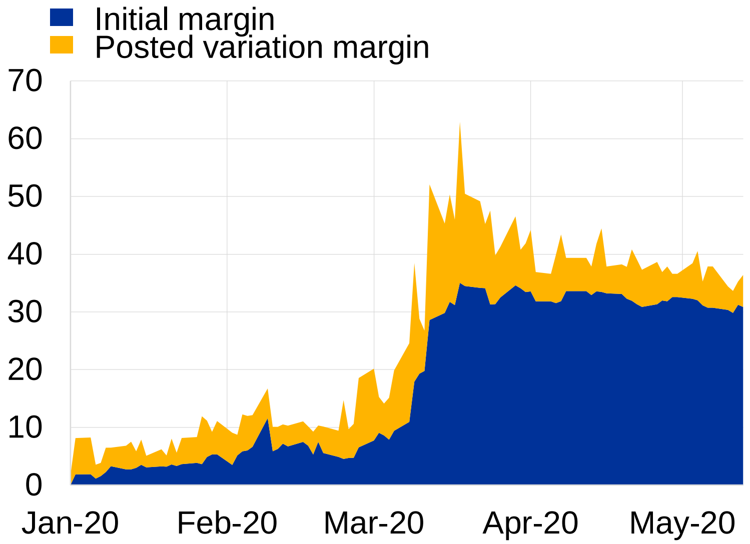


Source: Bloomberg and ECB calculations. The portfolio is composed by 4 assets representing different asset classes. The asset classes are Equity, Euro Area Government Bond, Euro Area IG corporate bond and Euro Area HY corporate bond.

Systemic stress amplified by interdependencies in non-bank sector

Initial and variation margins collected by European CCPs

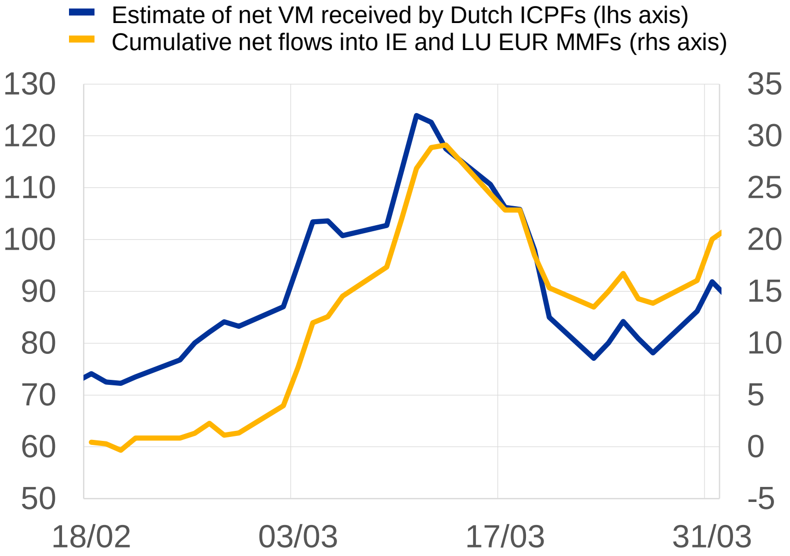
(cumulative changes relative to 1 January 2020; € billions)



Source: EMIR and ECB calculations.
Notes: The chart depicts an aggregate (cumulative) increase in initial margin relative to levels prevailing on 1 January 2020 and in gross incremental variation margin posted by euro area clearing members of four EU and UK central counterparties.

Euro area ICPF variation margins and euro-denominated MMF flows

(€ billions)

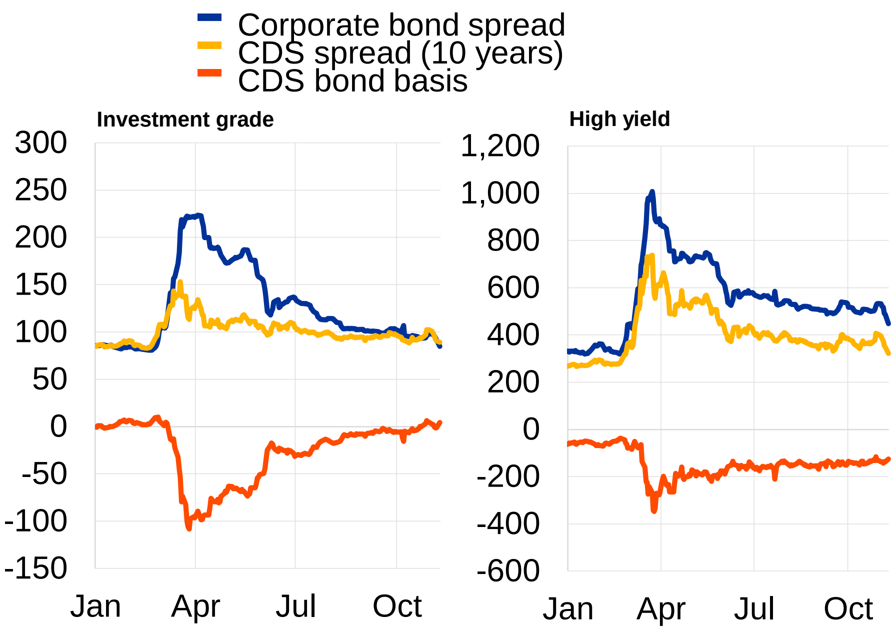


Source: EPFR, EMIR and ECB calculations.
Note: "Net VM received" refers to the stock of variation margin received by Dutch ICPFs (i.e. cumulative variation margin since the inception of the contracts) . These ICPFs use mainly EUR-denominated MMFs domiciled in Ireland whose flows are depicted in the chart.

Liquidity strains amplifying market stress in the euro area

CDS bond basis for investment-grade (left) and high-yield (right)

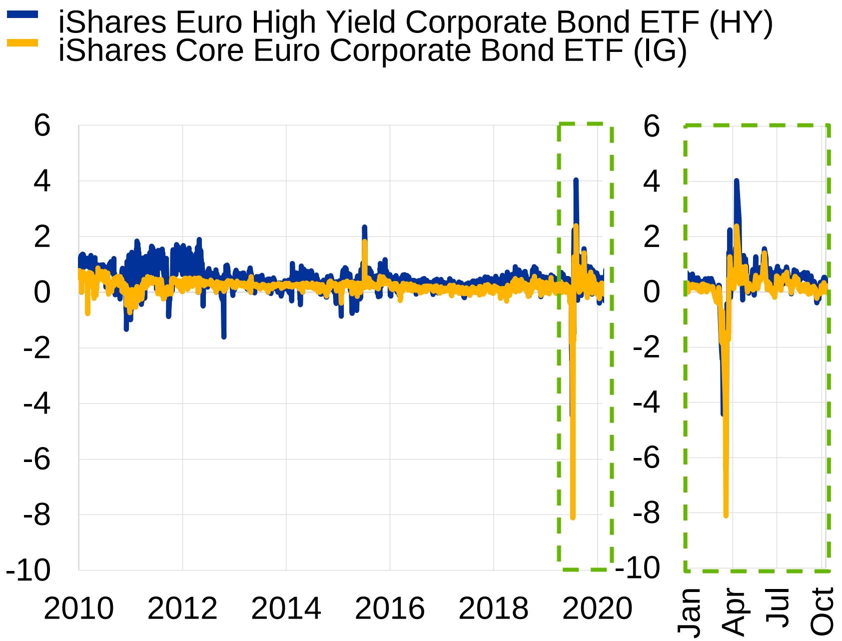
(basis points)



Source: IHS Markit, Refinitiv.

NAV spreads for ETFs tracking euro corporate bond indices

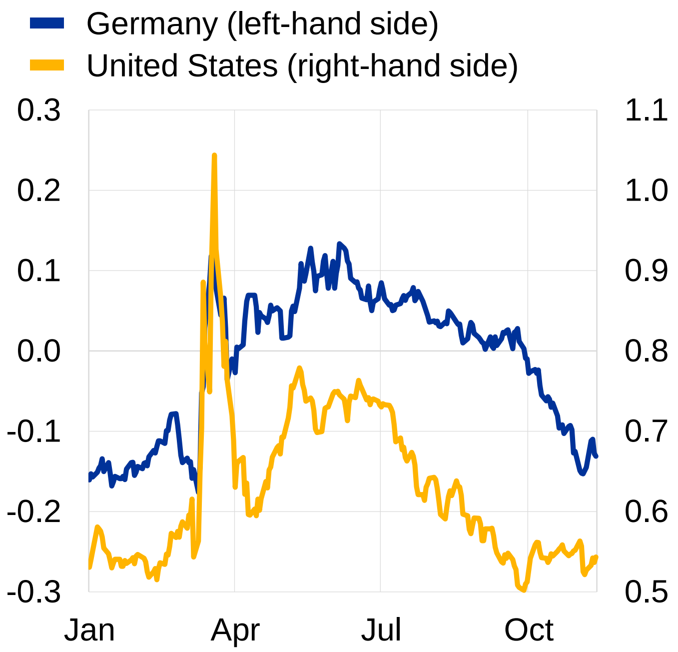
(percentages)



Source: Bloomberg Finance L.P.

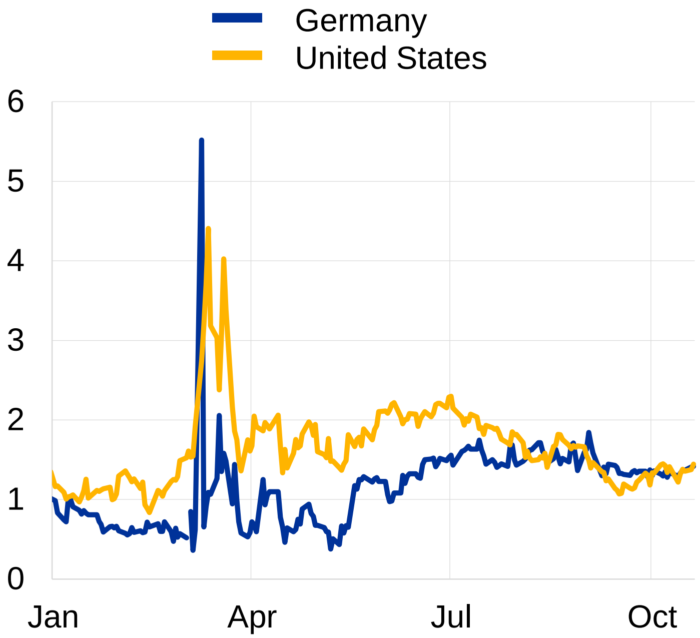
Dislocations in sovereign bond markets due to a dash for cash

Spread between 30-year sovereign bond and OIS rates
(percentages)



Source: Bloomberg.

Deviations from sovereign spline curves
(basis points)

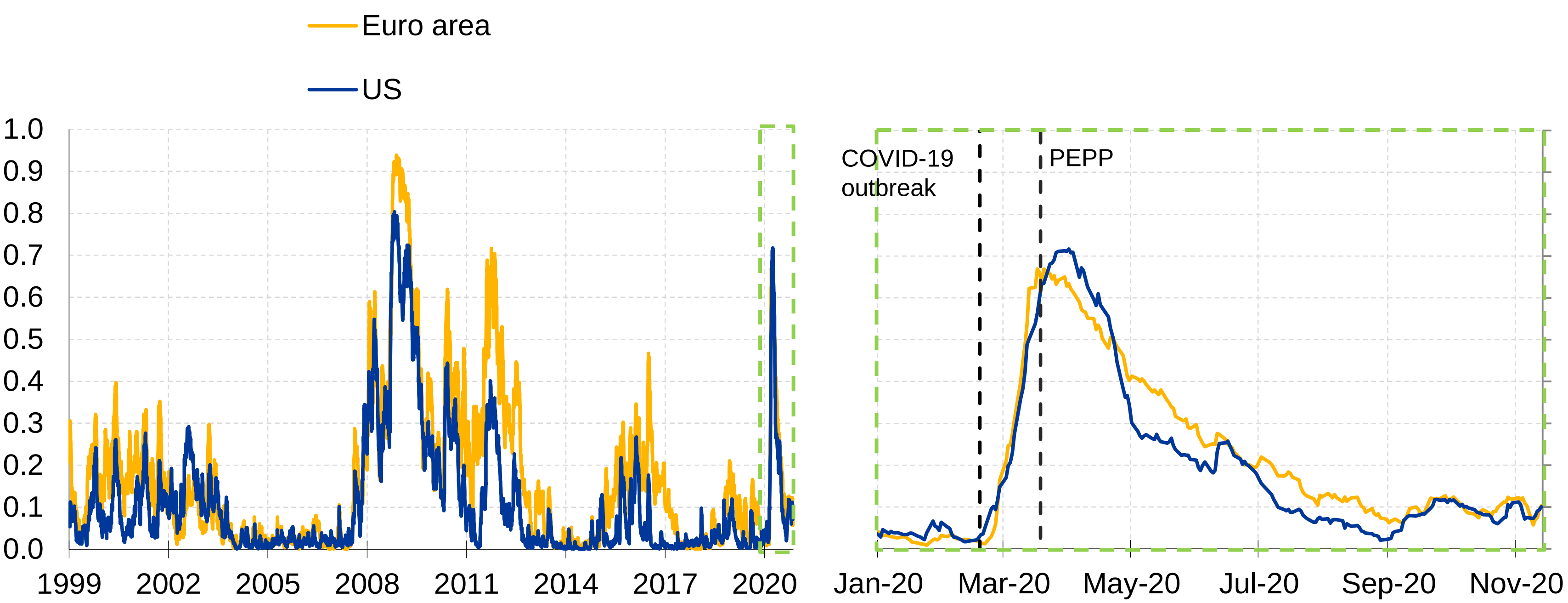


Source: TreasuryDirect, JSDA, Bundesbank and ECB calculations..
Note: Average absolute deviation of spline spreads of nominal government bonds with maturities between 7 and 15 years and cash prices between 70 and 130 from the mean.

Sharply rising systemic stress in financial markets during the pandemic

Composite Indicator of Systemic Stress (CISS)

(0=No Stress,1=High Stress)



Source: ECB Working Paper No 1426. CISS aggregates stress symptoms across money, bond, equity and foreign exchange markets and is computed from time-varying correlations among individual asset returns.
Last observation: 13 November 2020.

Thank you for your attention