Relevant vulnerabilities of German sectors

Table 2.2.1

Sector	Vulnerabilities
Real economy	
Non-financial corporations	Relatively high and rising leverage and weak earnings among non-financial corporations particularly hard hit by the pandemic; interest rate risk in parts of the corporate sector; business models potentially jeopardised by structural change
Households	Signs that value of real estate collateral is being overestimated: sharp price increases and overvaluations in the residential real estate market whilst at the same time loans to households for house purchase are growing dynamically; rise in debt from a fairly low level; initial signs of easing of credit standards
Financial intermediaries	
Banks	Incentives for increased search for yield and risk taking: e.g. high allocation risk, high maturity transformation; potential underestimation of credit risk: credit collateral could be overvalued and default risk undervalued; risk provisioning and risk weights are very low; risk of contagion in the banking system: direct via materialisation of credit risk or indirect via vulnerability to similar risks in the corporate sector
Insurers	Potential solvency risks owing to high interest rate sensitivity; incentives for increased search for yield and risk taking: e.g. default risk for asset holdings; liquidity risk: fixed surrender values harbour danger of "rush to the exits", e.g. if interest rates rise sharply or major asset value losses occur
Investment funds	Incentives for increased search for yield and risk taking: e.g. increased interest rate risk owing to long portfolio durations; danger of portfolio losses as a result of corporate sector rating downgrades

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