

Modules of the stress tests on German financial intermediaries

Module	Rationale	Risks considered and intermediaries		
		Credit risk for loans to non-financial corporations	Credit risk for residential real estate loans	Market risk ¹
Risk scenario: a subdued economic recovery over three years	Clear yet still possible deviation from the currently expected recovery path over the next three years (based on the Bundesbank forecast of June 2021) ²	Projection of loss ratios per sector based on their correlation with the assumed growth in gross domestic product.	Path of unemployment rate follows from assumed macroeconomic developments. Consistent growth is assumed for house prices.	Model forecasts for CDAX, Bund yields and risk premia of the bonds of non-financial corporations. Further assumptions are derived into consistent developments using bridge equations and estimations; the yield curve falls endogenously.
Risk scenario: a severe macro-financial downturn within one year	Unexpected, severe macro-financial downturn (based on historical developments)	Maximum (sectors hit hard by the coronavirus pandemic) or average plus one standard deviation (other sectors) of banks' historical loss ratios between 2003 and 2020.	House prices decline by 30%; unemployment rate increases to 10%.	Market distortions are derived from the historical evolution of risk premia on bonds and share prices since January 2000. ³ The yield curve is assumed to be unchanged.
Intermediaries affected		Banks	Banks	Banks, insurers, investment funds
Second-round and amplification effects	For banks: curtailment of lending, sale of liquid assets For investment funds: deleveraging, capital withdrawals, second-round effects on securities and investment fund share prices			

1 Market risk includes the credit risk of market-traded assets (e.g. shares, bonds). **2** See Deutsche Bundesbank (2021), Monthly Report, June 2021. **3** 99.5th percentile for changes in the risk premia of bonds and 0.5th percentile for the relative changes in share prices.