1. The Global Financial Environment

The global financial system has so far proven relatively resilient to the consequences of Russia's invasion of Ukraine, increases in interest rates due to high and persistent inflation, and further waves of COVID-19. Nevertheless, these developments could be a source of financial instability. A sustained period of high inflation caused by higher commodity prices and supply disruptions may see policy rate expectations and interest rates rise significantly, alongside slowing economic growth. Hostilities in Europe could contribute to a sharp rise in risk premia and large declines in asset prices, while the resulting sanctions could trigger dislocation in parts of the financial system that could lead to broader market stress. In addition, further outbreaks of COVID-19 have the potential to disrupt economic activity due to mobility restrictions, such as those recently imposed in parts of China. While COVID-19 remains widespread and a large share of the global population is yet to be vaccinated, the risk endures of more virulent and transmissible variants emerging.

Any of these potential shocks could trigger a significant tightening in financial conditions resulting in global market disruptions. Asset price declines caused by a large increase in interest rates or risk aversion could be exacerbated by stress in non-bank financial institutions, some of which are vulnerable due to high leverage and liquidity mismatches. Higher inflation and interest rates, and lower real income growth, would also pose risks for households and businesses with high debt burdens. Emerging market economies (EMEs), particularly those in Latin America and eastern Europe, remain vulnerable to capital outflows as a result of rising interest rates in advanced economies – this is especially the case in economies with large fiscal deficits, high levels of debt and a heavy dependence on external financing. Some EMEs are also vulnerable to higher commodity prices, including food prices, arising from the war in Ukraine.

Continued strong housing price and credit growth have led some regulators to express concerns about the risks from disruptive housing price adjustments and high household indebtedness. Corporate indebtedness also remains a concern in some countries, where higher interest rates will increase debt servicing costs. In China, stress among property developers has increased significantly, although spillovers to the broader financial system have, to date, been relatively contained.

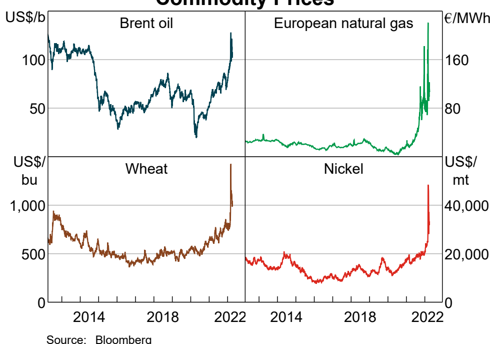
International bodies continue work in several areas that have cross-border implications for financial stability. Focus remains on addressing cyber risks – which are currently judged to be elevated – and the resilience of financial systems to those risks (see 'Box C: Building Resilience to Cyber Risks'). The impact of climate change on financial institutions is also a major focus, particularly as part of the Financial Stability Board's (FSB) Roadmap for Addressing Climate-related Financial Risks. The Roadmap covers areas such as monitoring and assessing vulnerabilities, data gaps, climate-related stress testing and improving disclosures. Large banks globally are enhancing their disclosures of climate risk, as part of their response (see 'Box A: International

Banks' Response to Climate Risk'). The growth of crypto-assets, including 'stablecoins', continues to be the subject of regulatory attention. The FSB has assessed that these fast-evolving markets could reach a point where they represent a threat to global financial stability due to their size, structural vulnerabilities and increasing interconnectedness with the traditional financial system.

The war in Ukraine has added to financial stability risks, but financial stress has been contained so far

The flow-on effects of Russia's invasion of Ukraine have increased the risk that persistently high and supply-driven inflation will lead to a sharper-than-expected tightening in monetary policy or slower economic growth, and cause a disruptive adjustment in financial markets. Commodity prices have risen sharply in response to concerns over the supply of gas, oil, wheat and other commodities from eastern Europe (Graph 1.1). The prices of Brent oil, wheat and European natural gas have increased by 30 per cent or more since the start of 2022.

Foreign banks' direct exposures to Russia are not large enough to have a significant effect on their capital ratios. However, banks may be affected by derivative and indirect exposures, including to leveraged investment funds. In addition, banks are exposed to a decline in the real incomes of households and businesses due to higher inflation and the possibility of weaker economic conditions. Reflecting these risks, European bank indices have fallen by more than 15 per cent, with global bank equity indices down by around 10 per cent since the invasion on 24 February (Graph 1.2). Cyber, operational, legal and compliance risks have become more prominent for banks and other firms as a result of intensifying sanctions.



Russian banks' subsidiaries in Europe have been significantly affected by the events in Ukraine:

- Sberbank Europe's Austrian parent and its Czech and Hungarian subsidiaries became insolvent and were closed, while regulators facilitated the sale of Croatian and Slovenian subsidiaries to other banks.
- VTB's subsidiaries in Europe are winding down their operations.
- RCB Bank (a Cypriot bank) was forced to stop accepting new customers and will wind itself down. VTB had a controlling stake in RCB, though this was transferred to the bank's management on the day of the invasion.

Investors and investment funds have had to write down the value of Russian investments significantly, in some cases effectively to zero. A combination of sanctions and Russian capital controls have made it difficult or impossible for foreign investors to sell Russian assets, and could prevent the Russian Government from settling foreign-currency obligations. Credit default swap spreads remain elevated, reflecting the increased likelihood of a default event on Russian Government debt.

The pick-up in market volatility and credit risk has increased the chance that large losses accrue to financial industry participants. If they are unable to meet obligations, it would add to market disruptions and losses could spread to other participants. Market stresses have been most apparent in some commodity markets,

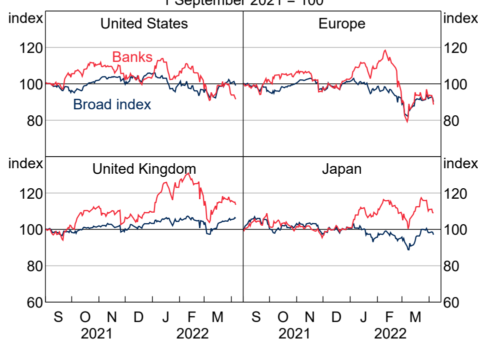
where large swings in prices triggered large margin calls, resulting in liquidity pressure on market participants. The nickel futures market on the London Metal Exchange (LME) was suspended in early March due to extreme price movements, to allow for an orderly unwinding of large short positions and limit disruptions from very large margin calls. The LME announced it will nearly double the size of its default fund, and authorities in the United Kingdom have announced a review into the LME's approach in managing the suspension and resumption of nickel trading. Nevertheless, markets are better prepared for stressed conditions than in the past, partly due to G20 reforms that led to the greater use of central counterparties.

In Russia, financial conditions have tightened drastically as a result of sanctions and a significant deterioration in the economic outlook. The Russian rouble depreciated by as much as 40 per cent following the invasion, but has since bounced back; the prices of Russian assets also fell significantly. At the same time, the Central Bank of Russia (CBR) and Russian financial institutions have had overseas assets effectively frozen, while other sanctions and the removal of some Russian banks from the SWIFT payment messaging system have made it very difficult for Russian financial institutions to transact with the rest of the world. Concerns over the solvency of Russian banks led to large withdrawals of bank deposits. In response to these developments, the CBR tightened monetary policy significantly and authorities implemented capital controls. The CBR also supported domestic banks by lowering reserve requirement ratios and increasing the provision of liquidity.

Graph 1.2

Equity Prices

1 September 2021 = 100



Source: Bloomberg

Higher interest rates and the war in Ukraine have triggered a decline in financial asset prices

Financial asset prices have been volatile in recent months, largely reflecting developments in Ukraine and changes in the outlook for monetary policy. Government bond yields have increased in most advanced economies since late 2021 as market expectations of an increase in monetary policy rates have grown in response to persistently high inflation. Higher long-term interest rates have weighed on global equity prices, particularly among firms that were highly valued because of expectations of strong earnings growth in the future (such as some technology firms). In the United States, the NASDAQ index has declined by more than 10 per cent since the start of the year. Markets expect policy rates in many economies to generally remain below rates that historically have been needed to slow inflation back to central banks' targets. Further reassessments in the outlook for monetary policy are plausible, which could result in sharp increases in interest rates and disruptive adjustments in financial markets.

Following Russia's invasion of Ukraine, measures of compensation for investor risk increased from low levels and European equity prices fell sharply, although these moves were later reversed (Graph 1.3). A sharp and sustained rise in risk premia – triggered, for example, by an escalation in the conflict or a reassessment in the economic outlook – would result in

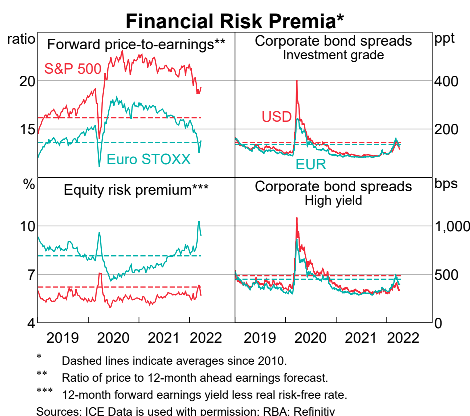
significant declines in asset prices, which could be amplified by pre-existing vulnerabilities in financial markets. Leverage in financial markets (some of which is hidden) can amplify large price falls as investors sell assets to meet margin calls. Reduced intermediation in government bond markets could generate dysfunction in the event of large movements in interest rates or risk sentiment, similar to the March 2020 'turmoil' in financial markets. However, while liquidity conditions in government bond markets deteriorated following Russia's invasion of Ukraine, this was by much less than at the onset of the COVID-19 pandemic.

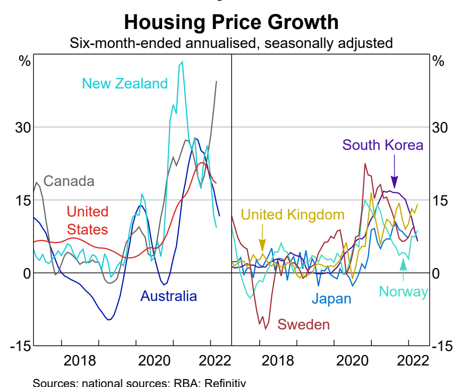
Conditions in short-term funding markets have tightened amid recent market volatility, but funding markets have generally functioned well. Nevertheless, as demonstrated at the onset of the pandemic, money market funds (MMFs) remain vulnerable to sudden and disruptive redemptions and to challenges in selling assets, particularly under stressed conditions. In October 2021, the FSB issued policy proposals to address these vulnerabilities. The proposals include mechanisms such as 'swing pricing' to impose the cost of redemptions on investors, and rules that would reduce the degree of liquidity transformation undertaken by MMFs. In December, the US Securities and Exchange Commission proposed MMF regulatory reforms that included elements of the FSB's recommendations; other jurisdictions are also progressing domestic MMF reforms.

Housing credit and price growth have slowed in some advanced economies, but remain high

Housing prices have continued to rise strongly in many advanced economies (Graph 1.4). Regulators in Canada, New Zealand and several European countries have pointed to signs of overvaluation in housing. Rapid price growth and overvaluation increase the risk of a sharp fall in housing prices, which could cause indebted households to decrease consumption and increases the risk of losses from default. Demand for housing has been underpinned by low interest rates, a large build up in household savings during the pandemic and a shift in demand towards larger and/or better quality living space. Global supply chain disruptions are delaying housing completions and increasing building costs, exacerbating supply constraints. However, there are early signs that growth in housing prices is beginning to slow in some countries, with Canada a significant exception.

Housing credit growth has slowed in many advanced economies, with Australia and the United States notable exceptions (Graph 1.5). Nevertheless, strong housing credit growth





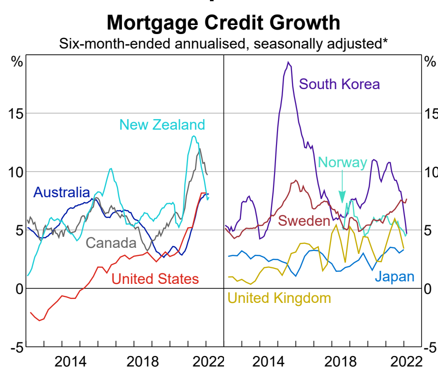
since the start of the pandemic has contributed to rising household indebtedness, which has been cited as a vulnerability by regulators in a number of jurisdictions. Some regulators have expressed concerns about debt serviceability alongside rising mortgage rates, particularly for those loans with high debt-to-income (DTI) or loan-to-income (LTI) ratios. High-DTI and high-LTI lending has increased in Australia, Canada, New Zealand, Sweden and in some euro area countries; debt serviceability will be more difficult for those borrowers if household income growth does not keep pace with rising inflation.

Authorities have continued to respond to housing market vulnerabilities. In Germany and Switzerland, sectoral capital buffers for housing exposures have been announced at 2 per cent and 2.5 per cent of housing risk-weighted assets, respectively. In New Zealand, a number of policy changes addressing high-risk lending and strong housing price growth have been implemented; legislative changes late last year require lenders to now conduct more extensive checks on borrowers' income and expenses, which – alongside other policy changes and higher interest rates – have led to a slowdown in credit growth.

Graph 1.5

Mortgage Credit Growth

Six-month-ended annualised, seasonally adjusted*



* Data for Japan, the United Kingdom and the United States are two quarter annualised rates.

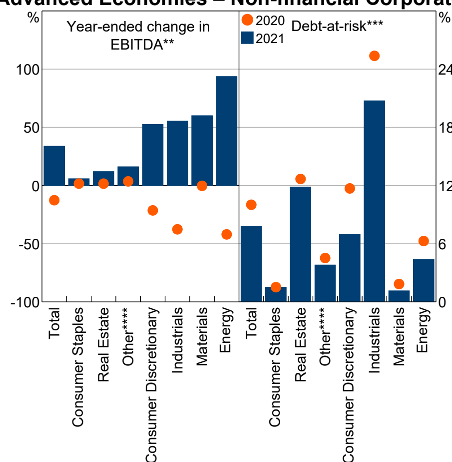
Sources: national sources; RBA; Refinitiv

Corporate earnings have improved, but risks are still elevated in pandemic-affected sectors and for smaller businesses

Corporate earnings have continued to recover alongside stronger economic activity (Graph 1.6). Earnings of listed companies were around 23 per cent higher in 2021 relative to 2019 in the United States and 8 per cent higher in the euro area. Earnings are forecast to grow by around another 15 percentage points and 11 percentage points, respectively, in 2022. However, the recovery in earnings has lagged for companies in industries where the pandemic continues to restrict activity, such as the international travel and leisure sectors. In many advanced economies, small and medium-sized enterprises (SMEs) continue to recover more slowly than large companies and risks remain elevated for these firms. During the pandemic, SMEs took on significant amounts of debt and were also more reliant on government support, which has now been largely withdrawn.

Graph 1.6

Advanced Economies – Non-financial Corporates*



* Includes companies from Australia, Canada, Japan, New Zealand, the United Kingdom, the United States and 16 developed European countries.

** EBITDA = earnings before interest, tax, depreciation and amortisation.

*** Share of total debt for companies with interest coverage ratio below 1.

**** 'Other' includes utilities, information technology, health care and communication services.

Sources: RBA; S&P Capital IQ

Corporate debt as a ratio to GDP remains at historically high levels in some economies – at around 100 per cent in Canada and Japan, and nearly 80 per cent in the United States. Although strong earnings growth has improved businesses' overall debt servicing ability in most industries, tightening financial conditions could expose vulnerabilities, particularly for highly indebted corporations. Higher interest rates have already increased debt servicing costs for some businesses, and over time could be challenging for more firms, particularly for those whose margins have declined due to rising input costs. The share of firms in advanced economies with an interest coverage ratio below 1 (i.e. firms with interest expenses in excess of earnings) remains particularly elevated relative to pre-pandemic levels in the industrials and consumer discretionary sectors. Market analysts expect that weaker economic growth and higher interest rates will contribute to higher corporate default rates in 2022 – although default rates are expected to remain low by historical standards. Prior to the conflict in Ukraine, stronger economic conditions had seen 12-month trailing default rates for high-yield corporate bonds fall to around 1.5 per cent in the United States and 1.2 per cent in Europe.

Prospects for different types of commercial real estate (CRE) continue to reflect the impact of structural change, including from the pandemic. Industrial property prices have grown strongly, driven by demand for data centres and distribution centres. In the retail and office sectors, the shift toward e-commerce and remote working – as well as a growing appetite for environmentally friendly, health-conscious spaces – is reducing demand for lower quality properties. Financial stability risks stemming from CRE remain contained in many advanced economies, but valuations would face pressure if interest rates were to increase significantly.

Banks' capital requirements will increase in several countries

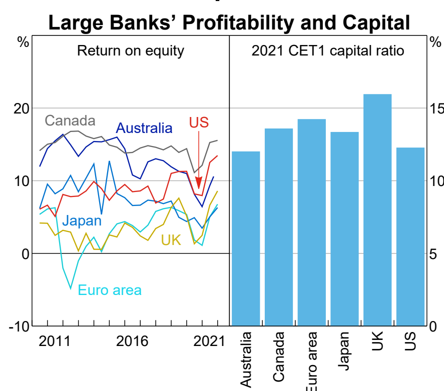
Capital ratios for a number of large banks have decreased over the past few months, due to capital distributions and/or increases in risk-weighted assets. Regulators in France, Germany, Norway, Switzerland and the United Kingdom have announced increases in their countercyclical and/or sectoral capital buffers, partly reflecting rising vulnerabilities. The European Central Bank (ECB) has increased overall capital requirements marginally for banks in the euro area, and reiterated concerns over some banks' internal governance, risk management, business models or capital planning. Large banks' capital ratios are high enough to meet these additional requirements without having to raise extra capital.

Large banks' profitability has risen further over the past six months, with return on equity now around 1–3 percentage points higher than pre-pandemic levels for most advanced economies (Graph 1.7). Elevated levels of corporate financing activity (partly driven by the low level of interest rates) have boosted investment banking revenues and supported bank profits. More recently, net interest income has also been supported by considerable lending growth for some banks. Most banks have continued to decrease their stock of loan-loss provisions alongside the strong global economic recovery to date. Non-performing loans (NPLs) have increased at a few large banks, although overall credit quality remains strong and NPL ratios are at low levels for most major banks. Regulators are closely monitoring the credit quality of banks' loans given the removal of pandemic support policies.

Notwithstanding recent profitability, low interest rates have compressed bank net interest margins (NIMs) for several years in some countries (particularly in the euro area and Japan) as lending rates have declined while deposit rates have generally not fallen below

zero. A sustained increase in policy and market interest rates should see NIMs increase as lending rates rise, supporting profitability. However, rising interest rates could be a risk to the credit quality of banks' assets if higher debt servicing costs are not matched by higher incomes. Rising interest rates could also lower demand for loans, capital market activity and investment-related advisory services (including mergers and acquisitions), which have been important sources of revenue for banks in recent times.

Structural challenges remain for banks in the euro area and Japan, where profitability continues to be constrained by overcapacity, low efficiency and compressed NIMs from low interest rates. Slower economic growth due to the war in Ukraine is likely to further weigh on bank profitability in the euro area. Euro area banks hold a large share of the pandemic-driven increase in sovereign debt and are vulnerable to sovereign debt sustainability concerns. Some euro area banks also entered the pandemic with high levels of NPLs, and the ECB has raised concerns about the adequacy of provisioning and other credit risk processes for several institutions. Nonetheless, euro area banks have improved provision coverage for NPLs considerably since the end of 2020, partly in anticipation of the implementation of Pillar 2 capital add-ons targeting inadequate provisioning for longstanding NPLs. In Japan, large banks continue to invest in riskier overseas credit products in search of higher yields given excess domestic deposits.



Sources: APRA; RBA; S&P Global Market Intelligence

Stablecoins and other crypto-assets pose a small but increasing risk to financial stability

There has been strong growth in the market capitalisation of crypto-assets, particularly stablecoins, over the past year. Stablecoins are privately issued crypto-assets that are designed to maintain a stable value against fiat currencies (particularly the US dollar) or other assets (such as gold). The total market capitalisation of the largest stablecoins pegged to the US dollar increased by more than 400 per cent over 2021 to around US$145 billion, while the value of all crypto-assets increased by 250 per cent to US$2.2 trillion (close to 5 per cent of the value of the S&P 500) (Graph 1.8).

Stablecoin providers hold assets to back their stablecoins on issue, but are not required to disclose the composition of those assets. For some providers, these assets comprise a mix of commercial paper, other short-dated securities, cash, loans and other crypto-assets, which exposes these providers to credit, liquidity and currency risks. Some stablecoins are therefore vulnerable to runs, which could lead to fire sales of the assets that back them, potentially disrupting critical funding for traditional market participants. There is also a chance that a run on one stablecoin would precipitate a run on other stablecoins given the lack of transparency and assumed similar asset holdings.

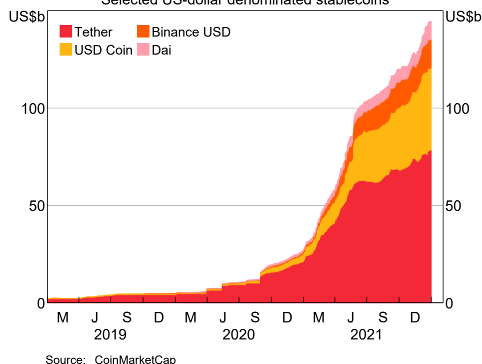
At present, risks to the broader financial system from crypto-assets other than stablecoins remain contained due to their small scale relative to, and limited direct links with, the broader traditional financial system. However, the rapid growth of crypto-assets and expanding interest from traditional institutional

investors suggest these risks are likely to increase in the future. Correlations between the prices of prominent crypto-assets and equities have increased since around 2020, consistent with rising interest from institutional investors over this time.

Central banks, regulators and international bodies are examining the financial stability risks related to crypto-assets by: considering the different types of crypto-assets and the links between them; identifying the gaps in existing supervisory and regulatory frameworks; and determining the infrastructure required to build better resilience against the risks. The Basel Committee on Banking Supervision recently consulted on its proposed capital requirements for bank exposures to crypto-assets, and the FSB is facilitating coordination of regulatory work on global stablecoins among standard-setting bodies.

EMEs remain vulnerable to tighter global financial conditions

The war in Ukraine is expected to affect EMEs largely through higher commodity prices, higher inflation and a shift in risk sentiment. While many EMEs export commodities, they are generally more vulnerable to commodity price increases and volatility than advanced economies given their relatively high



expenditure on energy and food. Direct financial linkages between Russia and other EMEs are minimal, with foreign banking claims on Russia accounting for less than 0.1 per cent of EMEs' banking assets.

EMEs remain vulnerable to capital outflows if increased inflation, and the relatively faster recovery in advanced economies, narrows interest rate relativities with advanced economies. Capital outflows would contribute to exchange rate depreciations, raising the cost of servicing and rolling over foreign-currency denominated debt, and lead to higher inflation. Some EMEs may also be less resilient to future COVID-19 outbreaks given their relatively low vaccination rates.

Vulnerabilities are higher in Latin America and Turkey. Central banks in Argentina, Brazil and Mexico have tightened monetary policy in response to high inflation, even as economic conditions remain weak, and markets expect further tightening (Graph 1.9). There have been net portfolio outflows, particularly from Latin America. The Turkish central bank cut its policy rate despite high inflation, and the Turkish lira has depreciated by around 40 per cent since September 2021 as a result. The share of foreign-currency denominated debt is relatively high in Turkey (around 40 per cent), and the depreciation has increased the cost of servicing and rolling over that debt.

Vulnerabilities are less prevalent among Asian EMEs, where financial systems have been resilient and there is less reliance on foreign-currency denominated debt. As a share of GDP, foreign exchange reserves in Asia are around one-third higher on average relative to other EMEs. Capital adequacy ratios increased in Asia in the fourth quarter of 2021; the average Common Equity Tier 1 capital ratio is 4 percentage points higher than in other EMEs (Graph 1.10). Inflationary pressures have also been more subdued in Asia. However, vulnerabilities in the Indian banking system remain

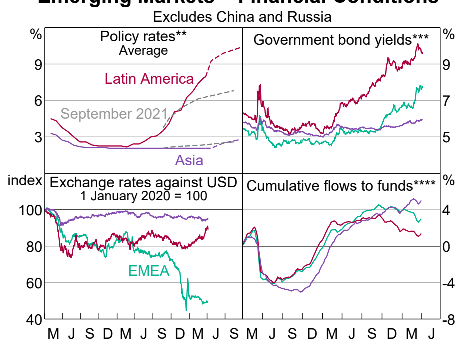
elevated, with higher NPL ratios and lower capital levels than other Asian banking systems. Forbearance measures have expired in India, but NPLs are expected to decline given the improved outlook for the Indian economy and efforts by banks to dispose of bad debt.

Temporary measures that allow EME banks to delay recognition of NPLs during the pandemic may be masking true asset quality, particularly on SME loans. NPLs are likely to rise as these measures expire, which will not be until 2023 for some EMEs. A high share of loans (around 30 per cent) was restructured under these

Graph 1.9

Emerging Markets – Financial Conditions*

Excludes China and Russia



* Country coverage within regions varies across panels reflecting data availability; EMEA = Europe, Middle East and Africa.

** Solid lines indicate actual policy rates; dashed lines show current implied rates and implied rates as at September 2021.

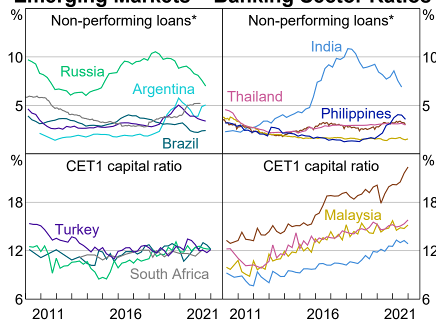
*** Local currency bonds, weighted by market value.

**** Per cent of assets under management; includes flows to bond and equity funds.

Sources: Bloomberg; EPFR Global; IMF; JP Morgan; RBA; Refinitiv

Graph 1.10

Emerging Markets – Banking Sector Ratios



* Share of total loans.

Sources: CEIC Data; IMF; S&P Global Market Intelligence

measures in Malaysia, compared with Indonesia and Thailand (around 15 per cent). The Bank of Thailand has recently encouraged banks to establish joint ventures with asset management companies to dispose of NPLs.

China's response to its latest COVID-19 outbreak could exacerbate global supply chain pressures and put pressure on its financial system

China has imposed stringent mobility restrictions in a few large cities over the past few weeks, including Shanghai and Shenzhen. If authorities impose extended restrictions in an effort to control outbreaks, then there is likely to be further pressure on global supply chains, potentially contributing to even higher inflation. In the absence of support measures, extended restrictions will also reduce incomes in these cities and constrain the ability of household and business borrowers to repay their loans, leading to losses for banks and shadow banking entities.

Stress among Chinese property developers remains acute but has not spread to the broader financial system

The financial health of Chinese property developers has deteriorated significantly since the previous *Financial Stability Review* and private developers now face severe funding difficulties. A number of major private developers have defaulted on US dollar bonds (including Evergrande and Kaisa), extended bond maturities and defaulted on loans. The sector now faces significant funding difficulties, with private developer bond yields increasing sharply over the past few months and equity prices falling by around 50 per cent since the start of 2021. Bond yields and equity prices have generally remained stable for most state-owned developers (Graph 1.11).

Some Chinese property developers have started debt restructuring processes that are likely to take several years to resolve, and markets expect

further defaults on the US$36 billion of US-dollar denominated debt due to mature this year. Reliance on off-balance sheet financing may also obscure property developers' total leverage and cause investors to underestimate risks. Notwithstanding their longer-term goal of reducing leverage in the property sector, Chinese authorities have implemented a number of support measures amid elevated stress in the sector. Authorities have: lowered a few key policy rates and reserve requirement ratios; exempted any borrowing to fund mergers and acquisitions of stressed property assets from policies that restrict developer leverage; exempted lending to fund affordable housing projects from real estate loan concentration limits; and adjusted policy at local levels to strengthen demand for housing sales.

In addition to bonds and loans, some developers have also defaulted on off-balance sheet products, including trust loans and wealth management products. A loss of confidence in these products could spill over to the banking system because of the role banks play in their issuance and distribution, and their importance as a source of funding for the financial system. New regulations on asset management products that took effect in December 2021 have improved transparency, which should minimise the risk of a sudden loss of confidence stemming from product opacity, and serve to reduce both explicit and implicit guarantees. More broadly, shadow financing has also contracted, with the stock of shadow financing relative to GDP decreasing by 5½ percentage points since the start of 2021 (Graph 1.12).

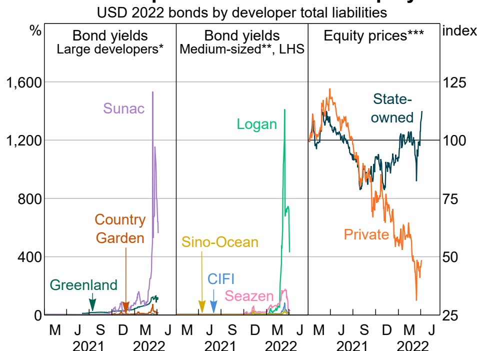
Stress in the property development sector has increased risks surrounding local government financing vehicles (LGFVs). Weaker demand for land by private developers has reduced local governments' revenue from land sales, which is an important source of their financing. This is a particular concern for local governments with weaker balance sheets. In fact, LGFVs – which are now legally separate from local government balance sheets in line with government policy in recent years – have been purchasing land and using it as collateral when borrowing. A sharp fall in land prices will lead to losses for creditors if these vehicles were to default. The authorities have been trying to reduce LGFV leverage and implicit guarantees; however, a sudden unwinding could erode confidence in the implicit guarantees that underpin much of the financial system.

Stress in the property development sector has had a limited effect on the general loan quality

Graph 1.11

Chinese Developer Bond Yields and Equity Prices

USD 2022 bonds by developer total liabilities

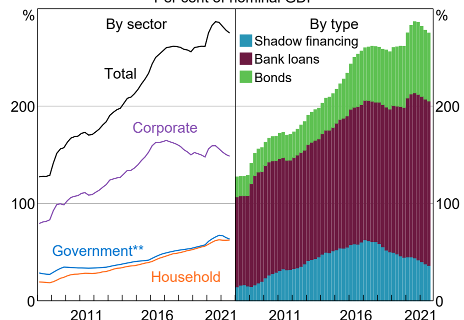


* Developers with liabilities more than CNY500 billion.
** Developers with liabilities of CNY100–500 billion.
*** Equity prices of largest developers excluding those that have defaulted on bonds; 4 Jan 2021 = 100.
Sources: Bloomberg; RBA

Graph 1.12

China – Non-financial Sector Debt*

Per cent of nominal GDP



* Includes RBA estimates of shadow financing that is not included in total social financing.
** Includes some borrowing by local government financing vehicles.
Sources: BIS; CEIC Data; RBA; WIND Information

of Chinese banks, despite the sector accounting for 6 per cent of bank loans at the end of 2021. NPLs as a share of total loans have been little changed at around 1.75 per cent, but are expected to increase slightly in coming months, particularly for loans to SMEs and the property sector. The authorities have been encouraging banks to increase asset write-offs and have strengthened frameworks for early detection and resolution of financial risks. The People's Bank of China also announced new measures to support continued lending to SMEs impacted by COVID-19, whereby banks negotiate repayment terms with SMEs; this could mask true asset quality until the program ends in 2023.

Capital adequacy at Chinese banks increased in 2021, but smaller banks continue to have lower levels of capitalisation and provisioning, higher NPLs and higher exposure to real estate and SMEs. Authorities are continuing to promote the consolidation of smaller rural and city commercial banks as a means of containing financial stability risks.

Corporate debt in China remains elevated, and has been a longstanding concern for the authorities. As a share of GDP, corporate debt decreased by 7½ percentage points over the first three quarters of 2021, but may increase in the short term alongside policies to stimulate economic growth.