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The ESRB risk dashboard: an overview

Issue 9

The macroeconomic outlook

The EU economy is recovering at a slower pace than expected, with large cross-country divergences. Most economies exhibited positive GDP growth rates for the second quarter of 2014 (indicator 2.1), but the recovery has been slow and varied across countries. In some euro area countries, for instance Italy and Germany, real GDP declined more than expected, or stagnated compared to first quarter of 2014. In contrast, macroeconomic conditions continued to improve in Portugal; where real GDP rose by over 1.0%.

On external balances, current account deficits are shrinking for most EU countries (indicator 2.3), partly due to falling imports, except in the United Kingdom where the current account deficits is rising. At the same time, there are a number of countries, which sustain large current account surpluses, notably the Netherlands and to a lesser extent Germany and Denmark.

Labour markets have shown some further signs of improvement, but unemployment remains high. The unemployment rate in the EA remains high at 11.5%, but the latest developments indicate that it has peaked and that labour markets have started to improve. There is a significant variation between countries. Indeed, the level of unemployment has consistently been receding for a number of stressed EU countries over the course of the past year (indicator 2.4), falling by close to 2 percentage points over 12 months in Ireland and Portugal.

Debt levels

Countries' levels of indebtedness are likely to weigh on the recovery for some time to come. Gross debt-to-GDP ratios remained at high levels for all sectors in the euro area, although they continued to decline marginally in the case of NFCs (indicators 2.5, 2.9 and 2.10)

While the deficit-to-GDP ratio is projected to fall below the 3% benchmark in 2014 (indicator 2.6), public debt levels continue their ascent (indicator 2.5) and approach 90% of GDP for the EU as a whole. In addition, HHS' debt-to-gross disposable income (indicator 2.9) and the NFCs' debt-to-GDP ratios (indicator 2.10) remain close to or above 100% for most EU countries.



Credit supply

Banks' supply conditions have further stabilised. According to the euro area Bank Lending Survey, for the second quarter of 2014, euro area banks reported a net easing of credit standards applied to both loans to enterprises and loans to households (indicators 3.5 and 3.6). At the same time, it has to be kept in mind that credit standards are still relatively tight.

In the period under review, the yield spreads of corporate bonds issued by euro area corporations remained broadly unchanged for most rating categories (indicator 3.7).

Meanwhile, the domestic bank credit-to-GDP gap, which measures the gap between the credit-to-GDP ratio and its long-term trend, has become more negative in several EU countries compared with 2012 and 2011 (indicator 2.2).

Financial conditions

Financial conditions continue to improve across the board. Sovereign debt markets have been relatively stable in 2014 (indicator 2.7) despite the short-lived increase of Portuguese and Greek CDS premia on sovereign over the summer.

Global indicators

Market perception of systemic risk is back to low level after a brief increase over the summer. This trend was captured by the rising composite indicator of systemic risk (CISS, indicator 1.1) as well as other measures of financial contagion (indicator 1.2, 1.3, and 1.4). The interdependence of large EU banks measured by the Systemic Risk Measure remains at low levels (indicator 1.2). Similarly, the risk sentiment is back to low level as indicated by the global risk aversion indicator (indicator 5.1).

Banks

The share of central bank funding is progressively being reduced across Europe (indicator 4.4), except in Cyprus and Hungary.¹

Significant banking groups in the euro area have strengthened their balance sheets ahead of the ECB's comprehensive assessment. Overall, Tier 1 capital to total assets has improved in 2012 and stabilised in 2013 (indicator 6.2a). There has been some improvement in profitability ratios in the first quarter of 2014 (indicator 6.1a), typically the strongest quarter of the year. But overall profitability levels remained rather subdued, as revenues, still elevated loan loss provisioning needs and potentially high litigation costs continued to weigh heavily on euro area banks' financial performance (indicator 6.2b).

Meanwhile, the price/earnings ratio of EU banking sector equity index sharply increased in 2014 (indicator 5.2).

¹ In Cyprus, the increase in the share of central bank funding reflects partly the fall in credit institutions' liabilities arising from the bail-in of depositors and bondholders following the resolution of the two largest domestic banks in March 2013



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Real estate

EU housing markets exhibit wide regional divergences. House prices are most overvalued in Belgium, Sweden, Finland and France (indicator 3.1a). Prices have been growing slowly in a number of countries. Of the five countries that experienced the largest fall in house prices over the past 3 years, Cyprus, Greece and Spain and Slovenia saw a further fall in prices, while Ireland experienced a rebound over the last year (indicator 3.1b).