ESRB
European Systemic Risk Board
European System of Financial Supervision

The ESRB risk dashboard: an overview

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1. Systemic risk indicators and financial market conditions

Systemic risk as perceived by markets remained stable at a low level. The composite indicator of systemic risk (CISS) and the sovereign CISS (indicator 1.1) as well as other measures of financial contagion (indicators 1.2 and 1.3) stayed flat over the second quarter of 2015. Hence, despite political uncertainty in Greece, contagion to other EU countries remained contained.

Overall, financial market conditions continued to be buoyant. Interbank interest rate spreads remained low (indicator 4.1), and financial market liquidity indicators continued to improve (indicator 4.2). The global risk aversion indicator stayed in negative territory over the second quarter, signalling risk seeking behaviour (indicator 5.1).

2. Macro risk

The macroeconomic environment improved further, albeit from low levels. Year-on-year real GDP growth was positive for all but one EU country (indicator 2.1), with euro area and EU growth exceeding 1% for the first time since the same quarter last year. The surplus in the current account continued to be a positive factor for the economic expansion of the EU (indicator 2.3). Compared to the three-year average, surpluses increased or deficits decreased in most countries. Levels of unemployment in the EU have been decreasing for 24 consecutive months (indicator 2.4). In April 2015, the unemployment rate for the euro area and the EU declined to 11.1 and 9.7%, respectively.

However, debt sustainability remains a concern amid low growth (indicator 2.5a). The public sector debt-to-GDP ratio has risen in most EU countries despite a continuing decline of fiscal deficits (indicators 2.6 and 2.7), the euro area and EU deficit having fallen to 2.4% and 2.9% of GDP, respectively, in 2014. In particular, the Irish debt-to-GDP ratio has declined by almost 15% over the last year (indicators 2.5b and 2.6). At the same time, sovereign financing conditions remained favourable with the exception of Greece, for which political uncertainties have led to an increase in default risk expectations as reflected in the evolution of the CDS premia (indicator 2.8).

3. Credit risk

Banks' lending to the private sector is heterogeneous across sectors and countries (indicator 3.1 and 3.2).[1] Growth rates of loans to the household sector increased across the EU. This general upward trend was not, however, noticeable for the corporate sector. Loan growth was also highly heterogeneous across countries. On the fast growing end of the spectrum, lending to households in Slovakia accelerated to more than 13%. However, the level of household indebtedness is among the lowest in the EU (indicator 2.10). On the opposite end, lending to households and NFCs in vulnerable euro area countries continued to decline, yet at a slower pace. At the same time, borrowing costs of the euro area private sector continued to decline for a vast majority of countries (indicators 3.3 and 3.4), as did the stock of foreign currency loans (indicator 3.11b)

Financing conditions for market funding to the private sector continued to be accommodative. Credit spreads for AAA-, BBB-rated and high-yield corporate bonds trended sideways, remaining at relatively low levels (indicator 3.9). Credit spreads have therefore not followed the increase in expected default frequencies over 2014 (indicator 3.10), despite being notable for the financial sector over recent months.

House price growth rates exhibited an upward trend in the EU (indicator 3.13). According to the latest available data, in most countries, year-on-year growth of residential property prices increased compared to a quarter ago. In only very few cases, house prices grew more slowly (Malta) or fell faster (Romania). This general upward trend, however, took place on highly heterogeneous levels, ranging from +17% in Ireland to -8% in Cyprus.

4. Banks

Despite recent improvements, banks continue to face low levels of profitability. Compared to a year ago, the first quarter results point to an improvement in profitability (indicators 6.1a and b). However, overall, levels of profitability remain on the low side. Despite some improvement, a low level of cost efficiency is weighing on banks' financial performance (indicator 6.1c). At the same time, banks are faced with a high, although slightly decreasing, level of problem loans and related provisioning needs (indicator 6.2b). However, the variation across banks is large and even increasing. Against the backdrop of low profitability, banks' Tier 1 capital ratios increased only slightly (indicator 6.2a).

Funding profiles have not continued to improve across all Member States and indicators. In several countries, the share of central bank funding has started to increase according to the latest available data, potentially breaking a trend of lower dependence on central bank funding observed since the height of the crisis (indicator 4.4). Dependence on central bank funding remains particularly high for fragile euro area countries. Banks further reduced their issuance of long-term debt (indicator 4.7), therefore relying more on debt with lower residual maturity (indicator 4.6).

[1] The implementation of the new ECB regulation on MFI balance sheet statistics (ECB/2013/33) in December 2014, will enable securitisation adjustments for the Euro Area Member States. Taking into account the stocks of and transactions in derecognised loans, the annual growth rates of MFI loans to households for BE would be equal to 3%.

5. Insurance corporations

Insurers benefit from the economic recovery, but suffer from the low yields. Average return on equity has declined by 2 percentage points from its peak of 11% in the second half of 2013 (indicator 6.4a). Investment returns of insurers are hit by the current low yield environment, as new investments carry lower yields which depress average returns. On the positive side, the average gross premiums written for life insurance (indicator 6.4c) seem to have stabilised after a gradual decline over the past 1.5 years. In addition, average gross premiums written for non-life insurance (indicator 6.4d) have picked-up somewhat, possibly as a result of the modest economic recovery in the EU. It should be noted though that a significant part of the life- and non-life sector continued to post negative premium growth rates.