



**ESRB**  
European Systemic Risk Board  
European System of Financial Supervision



**Frankfurt am Main, 20 December 2012**

# **European Systemic Risk Board**

## **ESRB Risk Dashboard**

### **Overview note**

**Issue 2**

**Cut-off date: 30 November 2012**



## **The ESRB risk dashboard: an overview**

### **Issue of December 2012**

As foreseen by EU Regulation 1092/2010 establishing the ESRB, the risk dashboard is a set of quantitative and qualitative indicators to identify and measure systemic risk in the EU financial system; it is one of the inputs for the Board's discussion on risks and vulnerabilities. The dashboard is updated and revised on a regular basis. This note is intended to provide a broad overview of the current risks and vulnerabilities of the risk dashboard; it does not summarise the Board's assessment of risks.

Two annexes accompany the risk dashboard: Annex I describes the methodology used to compile the indicators, while Annex II provides a description and interpretation of each indicator.<sup>1</sup>

### **Interconnectedness and systemic risk indicators**

During the last three months systemic risk measures have fallen from their peaks, in line with a positive market response to policy measures. The composite indicator of systemic stress (CISS) has been decreasing since mid-2012, to levels that are comparable to those in early 2001-2003 following the burst of the dot-com bubble in the United States (indicator 1). The average contribution of individual financial institutions to systemic risk – CoVar (indicator 3) – also signals comparatively low levels of systemic risk. The probability of a simultaneous default of two or more large banking groups (indicator 2) has also decreased, but remains at high levels.

EU banks continue to be characterized by high cross-border exposures; the most interconnected countries in terms of banks' foreign claims remain the United Kingdom, Germany, the Benelux countries and Sweden (indicator 5).

### **The macroeconomic outlook**

Macroeconomic indicators suggest a further weakening in the EU economy. GDP growth has been negative in several countries in 2012, and the forecast for the coming year is for several countries lower than the last quarter observed (indicator 6). A similar trend is

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<sup>1</sup> Annex I: [http://www.esrb.europa.eu/pub/pdf/dashboard/121220\\_dashboard\\_annex1.pdf](http://www.esrb.europa.eu/pub/pdf/dashboard/121220_dashboard_annex1.pdf);  
Annex II: [http://www.esrb.europa.eu/pub/pdf/dashboard/121220\\_dashboard\\_annex2.pdf](http://www.esrb.europa.eu/pub/pdf/dashboard/121220_dashboard_annex2.pdf)



observable for unemployment (indicator 9). Thanks to fiscal consolidation, the projected deficit-to-GDP ratio for 2012 is lower than its 2011 realized value (indicator 11), although levels vary widely by country. Some economic fundamentals show signals of improvement: some euro area's countries' dependence on external financing is shrinking, as indicated by falling current account deficits (indicator 8), and the global PMI manufacturing output index has started to reverse its downward trend around mid-2012 (indicator 17).

## **Debt levels in the economy**

Debt levels remain high in the EU. Projected 2012 government debt levels are often higher than 2011 (indicator 10), partly due to weak GDP dynamics. Households' debt-to-gross disposable income ratios – which were already high before the crisis – remain elevated in several countries and are declining in only a few cases (indicator 15). As for non-financial corporations, the picture is heterogeneous across countries and does not exhibit particular signs of deleveraging (indicator 14).

## **Financial markets**

Financial markets have seen relatively favourable developments in the second half of 2012. CDS premia on sovereign debt have been generally declining, despite a few notable exceptions (indicator 12). Their co-movement have been steadily decreasing (indicator 4), indicating that investors are less concerned about contagion. The composite indicator of financial market liquidity for the euro area has gradually improved over the past few months (indicator 26). Furthermore, interbank rate spreads have further decreased (indicator 25).

By November 2012, global risk aversion, while slightly higher than in June, remains low relative to crisis-time standards (indicator 33). Equity valuations have been improving, although they remain historically low, especially for banks and insurance companies (indicator 35). Over 2012 implied volatility increased for fixed income but declined for foreign exchange markets (indicators 36, 37 and 38).

## **Real estate**

The evolution of residential property prices has been heterogeneous across EU countries. Two broad groups emerge: countries where nominal residential prices continue to grow, albeit at a slower pace than over the last three years (indicator 24.b upper right quadrant), and countries where real estate prices continue to fall, often at a faster pace than over the last three year (indicator 24.b lower left quadrant).

## **Banks**

Banks continued their deleveraging process, albeit at a slow pace. In October 2012, annual growth rates of total liabilities (excluding capital) for monetary and financial institutions (MFIs)

of most EU countries were close to zero or in negative territory (indicator 29.b). Despite falling slightly, loans-to-deposits ratios (indicator 28) remained significantly above 100 percent for all banks in the sample, but have been slightly decreasing (although with a higher dispersion).

Banks' earnings outlook remains generally weak. Banks' profitability worsened in the second quarter of 2012 (and dispersion increased; indicator 40.a), due to sluggish growth and high provisioning (indicator 40.b).

### **Credit supply**

According to bank lending surveys carried out in the third quarter of 2012, overall credit standards in the euro area continue to tighten although at a lower speed than in the first half of the year for both residential mortgages (indicator 22) and loans to large companies (indicator 23). Corporate bond yields, however, a proxy for the funding cost for large non-financial corporations, are decreasing and relatively low by historical standards (indicator 20). The domestic credit-to-GDP gap was negative and shrinking for most countries in the second quarter of 2012 (indicator 7), reflecting partly sluggish demand.

### **Insurance companies**

So far, the insurance sector appears resilient to the adverse macroeconomic environment. Gross premium growth (life and non-life) has picked up in the first half of 2012 relative to 2011 (indicators 42c and 42d). Overall, the median return on equity remained stable in the first half of 2012 compared to the second half of 2011 (indicator 42a).