

The ESRB risk dashboard: an overview

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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.²

Interconnectedness and systemic risk indicators

During the last three months systemic risk measures have stabilized; the composite indicator of systemic stress (CISS) has returned to its pre-crisis average (indicator 1.1). Nevertheless, the probability of a simultaneous default of two or more large banking groups (indicator 1.2), an indicator of stress in the banking industry, has edged up somewhat during 2013. Also the average contribution of individual financial institutions to systemic risk – CoVar (indicator 1.3) – points to a slight increase in systemic risk compared to the situation at end of 2012.

EU banks continue to be characterized by high cross-border exposures (indicator 1.5). Compared to the previous release of the indicator, all bilateral cross-border exposures fall below the thresholds of 75% of consolidated banking sector capital in two countries (Portugal and Austria). In contrast, Greece shows greater interlinkages with neighbouring countries, mostly linked to the weak capital position of its banks at mid-2012. Banking sectors in Germany, United Kingdom, the Benelux countries and Sweden remain the most interconnected in the EU, while the US remain a major counterpart (indicator 1.5).

¹ Based on data up to the 1st of March 2013.

² See: <http://www.esrb.europa.eu/pub/rd/html/index.en.html>.



The macroeconomic outlook

Macroeconomic indicators point to a difficult 2013. GDP growth has been negative in several countries in the four quarters up to September 2012, and the forecasts for the current year do not show any significant improvement for the EU as a whole (indicator 2.1). Unemployment is expected to rise further in 2013 for many countries (indicator 2.4); the EU economic sentiment indicator continues to be below its long term average (indicator 2.10).

However, some economic fundamentals show signals of rebalancing. Thanks to fiscal consolidation in the EU, the 2012 projections for the deficit-to-GDP ratio by the European Commission show an improvement for the EU as a whole compared to 2011 (indicator 2.6), although with a large cross-country heterogeneity. At the same time, current account deficits are shrinking in most EU countries, largely due to falling imports (indicator 2.3).

Debt levels

Debt levels remain high in the EU. Projected 2012 government debt levels hover on average around 85% of GDP, partly due to weak GDP growth (indicator 2.5). Based on 2011 data, households' debt-to-gross disposable income ratios exceed 100% in 10 EU countries (indicator 2.9). As for non-financial corporations (NFC), there is no clear sign of deleveraging, with the NFC debt-to-GDP ratio declining marginally in 2012 for only seven EU countries on a year-to-year basis as of September 2012 (indicator 2.13).

Financial markets

Overall, financial markets conditions have continued to improve in the recent months. CDS premia on sovereign debt have been generally declining until the end of 2012, and have remained stable for the first months of the year (indicator 2.7). The composite indicator of financial market liquidity for the euro area has continued to improve (indicator 4.2) and money market spreads have remained at low levels (indicator 4.1). Similarly, equity valuations have been improving since mid-2012, even for banks and insurance companies (indicator 5.2.b), although less markedly than other sectors. Price-to-earning ratios are back to their long term average, around 15 (indicator 5.3). Moderate signs of risk aversion and volatility have re-emerged (indicators 5.1, 5.2.c, 5.4 and 5.6), pointing to market fears of continued vulnerability to adverse shocks.

Real estate

Developments in residential property prices are heterogeneous across the EU. In many countries, prices have been declining for at least three years (indicator 3.1.b, lower left quadrant), while for a few others, most notably Germany and Austria, they have been increasing (indicator 3.1.b, upper right quadrant). Trend reversal, from growing to stable, are observed for a third group of countries, including Sweden and France. In terms of valuation,

prices of real estate properties in the euro area are now broadly in line with underlying economic fundamentals (indicator 3.1.a), due to a reversal from either overvaluation (e.g. Spain) or undervaluation (e.g. Austria, Germany), even though the estimates suggests that overvaluation persists in some countries, particularly in Belgium.

Banks

There has been limited bank deleveraging. In December 2012, annual growth rates of total liabilities (excluding capital) for monetary and financial institutions (MFIs) in most EU countries were close to zero (indicator 4.5.b). Loans-to-deposits ratios (indicator 4.4) continued to be high, at more than 150 percent for more than half of the sample of large EU banks.

Dependence on central banks refinancing remains above the 3-year average for all countries in the euro area except Germany and Malta (indicator 4.6). Lending spreads remain large in some EU countries (indicator 3.4). Banks' earnings outlook remains generally weak (indicator 6.2.a) despite rising net interest income (indicator 6.2c).

Credit supply

According to bank lending surveys for the last quarter of 2012, banks continued to tighten their credit standards for both residential mortgages and loans to large enterprises in the euro area, while credit availability has increased in the UK (indicator 3.5 and 3.6). The domestic credit-to-GDP gap, while overall negative across the EU, has gradually converged to zero, except in some countries (particularly Cyprus, Spain and Portugal - indicator 2.2). The annual growth rate of lending in foreign currency has remained negative in most EU countries (indicator 3.2.a).

Insurance companies

According to mid-2012 data, the insurance sector appears resilient to the adverse macroeconomic environment. However, the positive stock performance for the sector (indicator 5.2.b) seems to be driven largely by expectations of future profits (in the form of rising price-to-earnings ratio, indicator 5.3).