



## The ESRB risk dashboard: an overview

### Issue 6

#### The macroeconomic outlook

**The macroeconomic indicators show that the recovery is proceeding, albeit in a subdued and uneven pace across EU countries.** Most major EU economies exhibited a positive year-on-year GDP growth rate for the third quarter of 2013 (indicator 2.1). In addition, growth forecasts for 2014 indicate a significant improvement for all countries, except Cyprus and Slovenia. 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 and Belgium where current account deficits continue to rise. A number of countries, such as Germany and the Netherlands, exhibit large current account surpluses.

On the downside, although labour dynamics continue to differ substantially across countries, unemployment rates, which are expected to remain well above long-term benchmarks until 2014, are likely to weigh down on the recovery for some time to come (indicator 2.4).

#### Interconnectedness and systemic risk indicators

**The composite indicator of systemic stress (indicator 1.1) confirms that market perception of systemic risk remains low at around pre-crisis levels.** In addition, the probability of a simultaneous default of two or more large banking groups (indicator 1.2), an indicator of stress in the banking sector, has fallen below 5% or pre-2010 level.

#### Financial markets

**Overall, financial market conditions remain buoyant.** The global risk aversion indicator remains low since mid-2012 (indicator 5.1). Price-to-earnings ratios have returned to their long-term average (indicator 5.2), while equity indices have risen steadily since mid-2012 (indicator 5.3.a). Money markets have remained liquid for the past three quarters, as indicated by interbank interest rate spreads (indicator 4.1) and the financial market liquidity indicator (indicator 4.2). The uncertainty on the evolution of future short-term rates in the euro area has fallen, as shown by the option-implied volatility which has reached levels comparable with those of the UK and US markets (indicator 5.4)..



## Debt levels

**High level of indebtedness remains a key vulnerability in most EU countries.** Public debt levels continue to rise (indicator 2.5), with projected 2013 deficit-to-GDP ratio edging to the 3% benchmark (indicator 2.6) and projected 2013 government debt levels hovering around 90% of GDP in most EU countries (indicator 2.5). In addition, private sector indebtedness, as shown by the household's debt-to-gross disposable income ratio (indicator 2.9) and the non-financial corporations' debt-to-GDP ratio (indicator 2.10), is likely to continue to weigh down the recovery.

## Credit supply

**Banks' supply conditions have stabilised.** According to the euro area Bank Lending Survey, credit supply conditions for households and firms (indicators 3.5 and 3.6) stabilised in third quarter of 2013, in the context of on-going weak loan demand. The domestic bank credit-to-GDP gap, which measures the gap between the credit-to-GDP ratio and its long-term trend, has narrowed further compared with 2012 and 2011 (indicator 2.2), particularly in the United Kingdom and Ireland.

## Banks

**The demand for central bank liquidity is declining in most of the euro area countries.** This is also reflected in the on-going repayments of the ECB three-year longer-term refinancing operations across Europe, except in Cyprus and Slovenia (indicator 4.4). Similarly, banks' deposits with the Eurosystem are also falling rapidly (indicator 4.5).

**Low profitability weighs down banks' ability to clean their balance sheets.** Over the past two years, banks' income-generating ability has been somewhat lower than expected, particularly in the face of continuously rising impaired and past due loans (indicator 6.2.b). There are some encouraging signs but no clear signal of a return to pre-crisis profitability (indicator 6.1.a).

## Real estate

**Developments in residential and commercial property markets remain a potential source of concern in some European countries.** Developments in residential property prices remain heterogeneous across the EU, with two extreme groups of countries: the "buoyant markets" (France, Belgium and Sweden) and the "burst markets" (Ireland and Spain) (indicator 3.1). Authorities in some countries (Sweden, Belgium and the United Kingdom) have recently announced changes to policies with respect to residential mortgages due to concerns about residential real estate developments and to strengthen banks' resilience in case of weaker market conditions.