



The ESRB risk dashboard: an overview

Issue 7

The macroeconomic outlook

The macroeconomic environment is slowly improving. Most EU economies exhibited positive, albeit weak, GDP growth rates for the third quarter of 2013, coupled with improving growth forecasts for 2014 ([indicator 2.1](#)).

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 are still rising. At the same time, there are a number of countries, notably Germany, which sustain large current account surpluses.

Labour market conditions have improved for a number of stressed EU countries. The level of unemployment has consistently been receding in Ireland and Portugal over the course of the past year ([indicator 2.4](#)), falling by 1.9 percentage point over the last 12 months. Both countries appear to be on the road to beat the European Commission's projection for 2014.

Debt levels

Countries' levels of indebtedness are likely to weigh on the recovery. 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, households' debt-to-gross disposable income ratio ([indicator 2.9](#)) and the non-financial corporations' debt-to-GDP ratio ([indicator 2.10](#)) remain close to or above 100% for most EU countries. The improving macroeconomic condition has permitted a fall of the latter for most over indebted countries.

Financial conditions

Financial conditions continue to improve across the board. Sovereign debt markets continue to stabilise, including for stressed countries. Similarly, CDS premia have declined further over the course of 2013 ([indicator 2.7](#)). Portugal CDS premia on sovereign have benefited from similar trends, although remaining 150 bps higher than that of Italian or Spanish CDS.



Interconnectedness and financial markets

Market perception of systemic risk seems to remain low at pre-crisis levels. This trend is confirmed by the receding composite indicator of systemic risk (CISS, [indicator 1.1](#)) and other financial contagion indicators ([indicator 1.2](#), [1.3](#) and [1.4](#)).

Financial sector risk sentiment has remained low since mid-2012 as indicated by the low level of the global risk aversion indicator ([indicator 5.1](#)).

The price/earnings ratio of EU banking sector equity index fell by one third over the last quarter of 2013 ([indicator 5.2](#)), as a number of banks from stressed economies are returning to profit.

Banks

The share of central bank funding is progressively falling across Europe ([indicator 4.4](#)), except in Cyprus and Hungary.

Some progress has also been made in terms of banks' resilience. Overall, Tier 1 capital to total assets has improved ([indicator 6.2a](#)), and there is a reduction in the share of impaired loans and past due loans to total loans ([indicator 6.2b](#)).

Credit supply

Banks' supply conditions have further stabilised. According to the euro area Bank Lending Survey, credit supply conditions for households and firms ([indicators 3.5](#) and [3.6](#)) continued stabilising in the fourth quarter of 2013. Corporate spreads for riskier securities have fallen to levels comparable with those prevailing at the beginning of 2008 ([indicator 3.7](#)).

Real estate

EU housing markets exhibit wide regional divergences. House prices are most overvalued in Belgium, Finland, France and Sweden ([indicator 3.1a](#)). In Greece, Ireland, and Spain, house prices have decreased by more than 25% over the past three years ([indicator 3.1b](#)). The recent decrease in Spain and Greece contrasts the relative stability of the Irish housing market this past year.