



The ESRB risk dashboard: an overview

Issue 8

The macroeconomic outlook

The macroeconomic environment is slowly improving, despite large cross-country divergences. Most EU economies exhibited positive GDP growth rates for the first quarter of 2014, coupled with improving growth forecasts for 2014 (indicator 2.1). Real GDP in Slovenia and Portugal rose by more than 1.5% year-on-year. In contrast, in several euro area countries real GDP declined more than expected, or stagnated.

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 where current account deficits are still rising. At the same time, there are a number of countries, which sustain large current account surpluses, notably The Netherlands and to a lesser extent Germany and Denmark.

Labour market conditions continue to improve in the EA and EU. The unemployment rate in the EA, which declined in the last two quarters, remains high at 11.8%. The level of unemployment has been consistently receding for a number of stressed EU countries over the course of the past year (indicator 2.4), falling by close to 2 percentage point over 12 months in Ireland and Portugal.

Debt levels

Countries' levels of indebtedness are likely to weigh on the recovery for some time to come. If the aggregate debt in the real economy shows wide divergence across EU (indicators 2.5, 2.9 and 2.10), most countries show a common trend since last year with an increase of government debt and a decrease of NFC and HH debt.

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, HHs' debt-to-gross disposable income (indicator 2.9) and the NFCs' debt-to-GDP ratios (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.

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 or loosen over the past two quarters. Corporate spreads for riskier securities have fallen to levels comparable with those prevailing at the beginning of 2008 (indicator 3.7).



Financial conditions

Financial conditions continue to improve across the board. Sovereign debt markets continue to stabilise, including for stressed countries. CDS premia have declined further over the first quarter of 2014 ([indicator 2.7](#)). Portugal CDS premia on sovereign converged further to that of Italian (50 bps) and Spanish (75 bps) CDS. Similarly, while Greece restarted issuing debt on the market in April, the country's CDS premia declined by almost 150 bps since the beginning of the year, despite a short-lived increase in the second quarter.

Global indicators

Market perception of systemic risk is back to low level after a brief increase earlier this year. This trend was captured by the rising composite indicator of systemic risk (CISS, [indicator 1.1](#)) but was not confirmed by other financial contagion models ([indicator 1.2](#), [1.3](#) and [1.4](#)). Similarly, the risk sentiment is back to low level as indicated by the global risk aversion indicator ([indicator 5.1](#)).

Banks

The share of central bank funding is progressively being reduced across Europe ([indicator 4.4](#)), except in Cyprus and Hungary.¹

Some progress has also been made in terms of banks' resilience. Overall, Tier 1 capital to total assets has improved ([indicator 6.2a](#)), with less than 20% of the banks (in terms of total assets) within the sample being below the threshold of a 4 percent Tier 1 capital to total assets ratio. The price/earnings ratio of EU banking sector equity index increased over the first quarter of 2014 ([indicator 5.2](#)).

Real estate

EU housing markets exhibit wide regional divergences. House prices are most overvalued in Belgium, Sweden, Finland and France ([indicator 3.1a](#)). Of the four countries that experienced the largest 3 years house prices fall, Cyprus, Greece and Spain saw a further fall over the last year, while Ireland experienced a rebound over that same period ([indicator 3.1b](#)). High lending margins ([indicator 3.3](#)) could partly explain the recent decline of housing price in Hungary and The Netherlands.

¹ In Cyprus, the increase in the share of central bank funding reflects partly the fall in credit institutions' liabilities arising from the bail-in of depositors and bondholders following the resolution of the two largest domestic banks in March 2013