ESRB
European Systemic Risk Board
European System of Financial Supervision

The ESRB risk dashboard: an overview

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1. Systemic risk indicators and financial market conditions

Markets continued to perceive systemic risk as low. The composite indicator of systemic risk (CISS) stayed in line with pre-crisis levels (indicator 1.1), and other measures of financial contagion trended sideways (indicators 1.2 and 1.3). The new indicator on sovereign stress (Sovereign CISS, indicator 1.1) increased slightly over the last two quarters, driven by developments in Greece.

Overall, financial market conditions remain buoyant. Money market spreads stayed at low levels (indicator 4.1), while financial market liquidity indicators improved further (indicator 4.2). In addition, the fall in equity prices over 2014 seems to have come to an end (indicator 5.3a) as does the rise in the spread on high-yield corporate bonds (indicator 3.9). Price-earnings ratios remained in the range observed before the crisis with the exception of banks, whose price-earnings ratios continue to significantly exceed their pre-crisis level (indicator 5.2).

However, risk aversion and volatility exceed their 2014 levels. While still signalling risk seeking behaviour, the global risk aversion indicator has trended upwards since mid-2014 (indicator 5.1). Against developments in Greece, it even dipped temporarily into positive territory, indicating a temporary switch from risk seeking to risk averting behaviour. In addition, despite some recent drop, measures of volatility in equity, interest rate and FX markets still stand at levels higher than in mid-2014 (indicators 5.3b, 5.5, and 5.6).

2. Macro risk

Latest real GDP growth releases indicate a moderate economic expansion in the EU (indicator 2.1). Dispersion of growth in different member states is still large. However, the European Commission Winter 2015 forecast suggests a reduction in cross-country differences.

The current account surplus for the euro area and the EU has increased slightly (indicator 2.3). Compared to the three-year average, in most countries, surpluses increased or deficits decreased. In some countries (e.g. GR, PT), deficits even turned into surpluses. Only in one country (UK), the deficit actually increased.

In line with positive economic developments, labour markets have improved further in the euro area and EU, despite persistently high levels of unemployment (indicator 2.4). In January 2015, the unemployment rate for the euro area and the EU declined to 11.2 and 9.8%, respectively.

Countries' levels of indebtedness remain a concern (indicator 2.5a). While the non-financial private sector debt has fallen over the last year, the public sector debt has risen in most EU countries (indicator 2.5b). General government debt-to-GDP ratio is and is expected to remain above 60% in 16 EU countries (indicator 2.6). However, the aggregate euro area and EU fiscal deficit is expected to continue to fall and stay below the 3% Maastricht threshold in 2015 (indicator 2.7). The CDS premia on sovereign debt has remained

relatively low and stable over the recent period (indicator 2.8). Despite political uncertainties and following a quarter and a half of increase, Greek's CDS premia have fallen since its peak in mid-February.

3. Credit risk

Financing conditions for loans to the private sector continue to improve. MFI loans to households (indicator 3.1) and NFCs (indicator 3.2) grew faster or declined at a slower pace in 2014 than in 2013, supported by decreasing costs of borrowing (indicators 3.3 and 3.4 for the euro area).[1] Apart from accommodative monetary policy, lower lending margins seem to drive these developments in many countries (indicators 3.5 and 3.6). In addition, euro area and UK lending surveys point to improvements in lending conditions (indicators 3.7 and 3.8).

Financing conditions for market funding to the private sector continue to be accommodative. Credit spreads for AAA-, BBB-rated and high-yield corporate bonds trend sideways, remaining at relatively low levels (indicator 3.9). Credit spreads have therefore not followed the increase in expected default frequencies over 2014 (indicator 3.10), which was notable for the financial sector over recent months.

The stock of foreign currency loans continued to fall in most countries. Following the recent appreciation of the Swiss franc, concerns have risen with regard to the level of loans extended in this currency (indicator 3.11a). However, in line with the ESRB recommendation on lending in foreign currency, countries have been taking measures to reduce the stock of foreign currency loans (indicator 3.11b).

Member States continue to exhibit very different house price dynamics (indicator 3.13). According to the latest available data, house prices kept growing rapidly in several countries (EE) or even accelerated their growth (IE, LT, UK, SE, MT). Countries concerned have taken or are in the process of taking macro-prudential policy measures to increase resilience against house price risks. In other countries, house prices kept falling (HU, CY, GR, SI) or started to recover after a significant drop in the past years (ES, NL).

4. Banks

Banks continue to face low levels of profitability. Overall, profitability has continued to be subdued (indicators 6.1a and b). Despite some improvement, a low level of cost efficiency is weighing on banks' financial performance (indicator 6.1c). At the same time, banks are faced with a high, although slightly decreasing, level of problem loans and related provisioning needs (indicator 6.2b). Against the backdrop of low profitability, banks were not able to increase Tier 1 capital ratios further (indicator 6.2a), despite favourable equity market conditions (see above).

Funding profiles have continued to improve. The share of central bank funding decreased in most countries according to the latest available data (indicator 4.4). In particular, fragile euro area countries have

[1] The implementation of the new ECB regulation on MFI balance sheet statistics (ECB/2013/33) in December 2014, will enable securitisations adjustments for the Euro Area Member States. Taking into account the stocks of and transactions in derecognised loans, the annual growth rates of MFI loans to households for BE would be equal to 3%.

significantly reduced their reliance on Eurosystem funding although the share of central bank funding continues to be high. In addition, banks have continued to prolong the maturities of their outstanding debt (indicator 4.6) and further reduced their reliance on wholesale funding as evidenced by the declining loan-to-deposit ratio (indicator 4.7).

5. Insurance corporations

Insurers continue to post healthy return on equities, but premium growth weakens. Average return on equity is stable at around 10%, with little deviation (indicator 6.4a). Here insurers are clearly helped by buoyant financial markets. However premium growth of both life insurers (indicator 6.4c) and non-life (indicator 6.4d) insurers have declined, with growth turning negative for many non-life insurers. This weakening of premium growth may be caused by the low economic growth in the EU and low interest rates.