



## 1. Systemic risk indicators and financial market conditions

**Systemic risk as perceived by markets stayed low.** The composite indicator of systemic risk (CISS) and the sovereign CISS ([indicator 1.1](#)) remained at low levels over the third quarter of 2015 despite some recent increase in the CISS. Individual institutions' contributions to overall systemic risk, a measure of financial contagion, also trended side-ways ([indicators 1.3a and b](#)). However, the contribution of some institutions, as evidenced by the 5<sup>th</sup> percentile, increased to levels last seen in 2012.

**Overall, financial market conditions remained favourable, despite rising risk aversion.** Interbank interest rate spreads stayed low ([indicator 4.1](#)), and money market liquidity improved further ([indicator 4.2](#)). However, the global risk aversion indicator shot up into positive territory in August, signalling risk averting behaviour ([indicator 5.1](#)).

## 2. Macro risk

**Economic expansion continued in the second quarter of this year, with still significant heterogeneity among EU member countries.** The latest data show that EU real GDP rose by 1.9% year on year ([indicator 2.1](#)). The surplus in the current account continued to be a positive factor for the economic expansion in the EU ([indicator 2.3](#)). Meanwhile, unemployment in the EU declined further in the second quarter of 2015 and stood at 9.5% in July ([indicator 2.4](#)).

**However, long term debt sustainability remained a challenge** ([indicator 2.5a](#)). Despite a continuing decline in fiscal deficits ([indicators 2.7](#)), the current public sector debt-to-GDP ratio of most EU countries exceeds its three-year average ([indicator 2.6](#)). With regard to sovereign financing conditions, pricing has remained favourable and stable, despite developments in Greece ([indicator 2.8](#)).

## 3. Credit risk

**Bank lending to the private sector is heterogeneous across sectors and countries** ([indicator 3.1 and 3.2](#)).<sup>1</sup> Annual growth rates of loans to the household sector increased across the EU. This general upward trend was not observable for the corporate sector over the same period. Across countries, loan growth was also highly heterogeneous. On the fast growing end of the spectrum, lending to households in Slovakia

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<sup>1</sup> The implementation of the new ECB regulation on MFI balance sheet statistics (ECB/2013/33) in December 2014 will enable securitisation 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%.

accelerated to 14%. However, Slovakia's level of household indebtedness is among the lowest in the EU ([indicator 2.10](#)). On the opposite end, lending to households and NFCs contracted sharply in Hungary (-13% for loans to households) and Malta and Slovenia (-10% and -12%, respectively, for loans to NFCs). At the same time, borrowing costs of the euro area private sector continued to decline across countries ([indicators 3.3 and 3.4](#)).

**Financing conditions for market funding to the private sector continued to be accommodative.** Credit spreads remained at relatively low levels despite a recent slight uptick in credit spreads for high-yield corporate bonds ([indicator 3.9](#)). Credit spreads have therefore not followed the decrease in expected default frequencies over recent months ([indicator 3.10](#)), which was particularly notable for the financial sector.

**House prices grew in most of the EU.** According to the latest available data, in most countries, year-on-year growth of residential property prices increased compared to a quarter ago ([indicator 3.13](#)). Growth rates, however, varied considerably across countries, ranging from +17% in Ireland to -5% in Cyprus.

#### 4. Banks

**Banks continued to improve their levels of profitability.** In the second quarter, profitability indicators reached their highest levels since data became available ([indicators 6.1a and b](#)). However, overall, levels of profitability, while showing considerable dispersion, remain on the low side. Despite some further improvement, the 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 further decreasing, level of problem loans and related provisioning needs ([indicator 6.2b](#)). However, the variation across banks remains large. Against the backdrop of low profitability, banks' Tier 1 capital ratios increased only slightly compared to the previous quarter ([indicator 6.2a](#)).

**Funding profiles have not continued to improve across all Member States.** According to the latest available data, the share of central bank funding did not follow a uniform trend across Member States, remaining particularly high for fragile euro area countries ([indicator 4.4](#)). The recent developments in Greece led to a large increase in central bank funding by Greek banks, but left banks in other countries largely unaffected. Issuance of long-term debt and the maturity profile of banks' outstanding debt securities remained stable ([indicators 4.6 and 4.7](#)).