



1. Systemic risk indicators and financial market conditions

Systemic risk as perceived by markets ticked up somewhat during the summer, then declined. The composite indicator of systemic risk (CISS) and its sub-indicators exhibited some bouts of volatility over the summer. Overall, however, the CISS and the sovereign CISS ([indicator 1.1](#)) remained at low levels. Individual institutions' contributions to overall systemic risk, a measure of financial contagion, trended side-ways ([indicators 1.3a and b](#)). However, the distribution, as evidenced by the 5th percentile, has widened, reaching levels last seen in 2012.

Overall, financial market conditions remained favourable. The global risk aversion indicator, which had shot up into positive territory in August, turned negative, signalling risk appetite behaviour ([indicator 5.1](#)). Interbank interest rate spreads and credit spreads stayed low ([indicator 4.1 and 3.9](#)). However, since mid-year, the spread of high-yield corporate bonds over AAA-rated bonds widened.

2. Macro risk

Economic developments continued to be positive. Third-quarter data show that EU real GDP rose by 1.9% year on year as in the previous quarter ([indicator 2.1](#)). Meanwhile, the labour market continued to improve, as unemployment in the EU declined further, standing at 9.2% in October ([indicator 2.4](#)).

However, debt sustainability in the public and non-financial private sectors remains a concern ([indicator 2.5](#)). Despite continuing efforts to reduce fiscal imbalances ([indicators 2.7](#)), the current public sector debt-to-GDP ratio of most EU countries remains high ([indicator 2.6](#)). At the same time, financing conditions remained favourable and stable ([indicator 2.8](#)). As a number of countries are highly indebted across all sectors of the economy, the potential spillovers between sectors add to the concerns on sustainability ([indicators 2.10 and 2.11](#)).

3. Credit risk

Bank lending to the private sector remains highly heterogeneous across sectors and countries ([indicators 3.1 and 3.2](#)). Annual growth rates of loans to the household and corporate sector increased compared to the same time last year. However, loan growth was highly heterogeneous across countries. On the fast growing end of the spectrum, lending to households in Slovakia 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 in Hungary (-12% for loans to households), Malta and Slovenia (-14% and -11%, respectively, for loans to NFCs). At the same time, borrowing costs of the euro area non-financial private sector continued to decline across countries with the exception of Ireland and Malta ([indicators 3.3 and 3.4](#)).



4. Banks

Funding profiles have improved in most Member States. According to the latest available data, the share of central bank funding, despite being elevated, has markedly decreased for fragile euro area countries with the exception of Greece ([indicator 4.4](#)). In the EU, issuance of long-term debt increased over the last two quarters, leading to a decreasing share of short-term funding in banks' outstanding debt securities ([indicators 4.6 and 4.7](#)).

5. Insurance corporations

Insurers benefit from the economic recovery, but suffer from the low yields. Average gross premiums written for life insurance ([indicator 6.4c](#)) seem to have stabilised after a 1.5-year period of gradual decline, and even increased slightly compared to the second half of 2014. Furthermore, there was a considerable increase of the whole distribution of non-life gross premiums written, shifting out of negative territory ([indicator 6.4d](#)). Overall, the median return on equity has increased slightly compared to the second half of 2014 ([indicator 6.4.a](#)); nevertheless, the current low-yield environment remains a challenge for insurers as new investments carry lower yields.