



### 1. Systemic risk indicators and financial market conditions

**Systemic risk as perceived by markets decreased at the end of the first quarter of 2016, following an increase at the beginning of the year.** However, the composite indicator of systemic risk (CISS) ([indicator 1.1](#)) is still above the levels observed in the fourth quarter of last year. Simultaneously, the global risk aversion indicator turned negative, suggesting that the risk appetite of market participants is increasing ([indicator 5.1](#)). Whereas the implied volatility of EU equity markets has been stable at low levels since the end of the first quarter of 2016 ([indicator 5.3b](#)), both euro area interbank interest rate spreads and high-yield corporate bond spreads have narrowed further, suggesting an increase in risk appetite ([indicators 4.1 and 3.9, respectively](#)).

### 2. Macro risk

**Economic recovery in the European Union continues**, with real GDP increasing by 1.7% year-on-year in the first quarter of 2016, close to the increase of 1.8% in the previous quarter. The European Commission's spring 2016 economic forecast estimates that EU growth will be 1.8% in 2016 ([indicator 2.1](#)). At the same time, the unemployment rate continued to decrease – in April it was down to 8.7%, compared to 9.6% at the same time last year ([indicator 2.4](#)).

**Levels of debt continue to remain a source of vulnerability in several countries, both for the public and the non-financial corporate sectors** ([indicator 2.5a](#)). However, debt levels have generally decreased over the past year, in particular in the most indebted countries ([indicator 2.5b](#)). In most EU countries, government deficit-to-GDP ratios are below the threshold of 3% under the Stability and Growth Pact, however only a few countries run a surplus ([indicator 2.7](#)).

### 3. Credit risk

**Bank lending to both households and the non-financial corporate sector continued its gradual recovery.** In April, growth in bank loans to these sectors was higher than its three-year average in the majority of EU countries. For a number of countries the growth rate of bank loans remains negative, but for most of these it is less negative than the previous year ([indicators 3.1 and 3.2](#)). This development runs alongside changes in lending margins to households and non-financial counterparties, which show a mixed picture ([indicators 3.3 to 3.6](#)).

**The picture for lending standards is also mixed**; they have been tightening for households but easing for non-financial corporate counterparties ([indicators 3.7 and 3.8](#)).

#### 4. Banks

**Banks' profits decreased for the third consecutive quarter, as measured by the average return on equity** ([indicator 6.1a](#)). The average cost-to-income ratio has increased over the past three quarters ([indicator 6.1c](#)) and the net interest income to total operating income has marginally improved in the first quarter of this year ([indicator 6.1d](#)). However bank profitability, as measured by the average return on assets, has remained more stable ([indicator 6.1b](#)). The maturity profile of debt securities issuance by banks shifted towards (unsecured) long-term funding, whereas funding via government guarantees continued to be phased out ([indicator 4.7](#)). Looking at the maturity profile of banks' outstanding debt securities, the volume of securities with maturities over one and up to two years declined in the early months of 2016. Since mid-2015, the average maturity of outstanding debt has increased; this is a consequence of the decrease in the outstanding amount of securities with maturities shorter than five years (whereas the outstanding amount of securities with maturities longer than five years has been stable) ([indicator 4.6](#)).

#### 5. Investment funds and other financial institutions

**As in the previous quarter, the size of the non-banking and non-insurance segments of the financial sector continued to grow in the 4<sup>th</sup> quarter.** Total assets of investment funds and OFIs have been growing relative to the total assets of credit institutions since the second quarter of 2015 ([indicator 7.4](#)). This is due to the positive growth of assets of investment funds and OFIs, net of valuation effects, and the negative growth of assets of credit institutions, both occurring in the third and fourth quarters of 2015 ([indicator 7.3](#)).