The ESRB risk dashboard: an overview
22 December 2016

Issue 18

1. Systemic risk indicators and financial market conditions

Systemic risks as indicated by market indicators have shown a decreasing trend over the last quarter. In November, the composite indicator of systemic risk (CISS, indicator 1.1) was at a level comparable to the level at the beginning of the year. Around the middle of the year, the CISS was generally higher, mainly owing to political developments. Overall, equity market volatility (indicator 5.3b) has remained stable at around 20 over the last four months, although volatility did increase briefly around the time of the US presidential election. Both the long-term interest rate volatility and the exchange rate volatility (indicators 5.5 and 5.6) increased to new higher levels, albeit from low levels, at the time of the US presidential election.

2. Macro risk

GDP growth across the European Union remained stable in the third quarter of 2016. EU GDP increased by 1.9% year-on-year in the third quarter of 2016, which was in line with the European Commission’s autumn forecast for the whole of 2016 (indicator 2.1). The GDP growth rate expected in the autumn forecast was an improvement compared to the spring forecast rate of 1.8%.

Unemployment rates have continued to decrease over the last quarter. Compared to three-year averages and the forecasts for 2016, the last observed unemployment rates were lower in a majority of EU countries (indicator 2.4).

Elevated debt levels remain a persistent issue in most EU countries. Aggregate debt levels decreased between the second quarter of 2015 and the second quarter of 2016 in most EU countries. However, the overall level remains elevated in a number of countries and, when compared to the three-year average, the improvement remains modest (indicators 2.5a and 2.5b). In addition, government debt remained well above the 60% threshold in most EU countries in the second quarter of 2016 (indicator 2.6), with persistent government deficits in most countries (indicator 2.7). Five countries continued to run a deficit higher than the 3% limit in the Stability and Growth Pact.

3. Credit risk

Bank lending to both households and the non-financial corporate sector (NFCs) continued on a path to gradual recovery. In October, the rates of growth in lending by credit institutions to households and to NFCs (indicators 3.1 and 3.2) were higher than the corresponding growth rates in October 2015 and the three-year averages in a majority of EU countries. In a number of countries the growth rates were still negative, but in
most of those countries the pace of credit contraction has decreased. The cost of borrowing continued to decrease. In nearly all observed EU countries, the cost of borrowing for both households and NFCs was lower in October 2016 than in October 2015 (indicators 3.3 and 3.4). The data show a mixed picture in both the change and level of lending margins for lending to households and to NFCs (indicators 3.5 and 3.6).

**Lending standards remained stable over the quarter.** For the euro area as a whole, lending standards for loans to households showed a minor easing, while there was a slight tightening for loans to NFCs (indicators 3.7 and 3.8).

**The vast majority of EU countries experienced residential real estate price growth between the second quarter of 2015 and the second quarter of 2016.** Most countries also experienced residential real estate price growth over a three-year period (indicator 3.13). Although residential real estate prices do not appear to be broadly overvalued across the EU, a small number of EU countries are showing signs of overvaluation (indicator 3.12). In September, the ESRB issued warnings addressed to eight Member States, concerning medium-term vulnerabilities in the residential real estate sector.¹

4. **Banks**

Banks’ profits remained broadly stable in the third quarter of 2016 compared with the previous quarter and compared with a year ago. In the third quarter of 2016, EU banks’ profitability was unchanged relative to the previous quarter and to the corresponding quarter of the previous year as measured both by return on equity and by return on assets (indicators 6.1a and 6.1b). The same holds for the cost-to-income ratio and net interest income (indicators 6.1c and 6.1d).

Between the third and fourth quarters of 2016, there was a continued change in banks’ funding profile. The issuance of covered bonds declined further between August and November 2016 (indicator 4.7). This was combined with a continuation of the observed trend of an increasing average maturity of outstanding debt (indicator 4.6). Between the third and fourth quarters of 2016, the credit default swap (CDS) spreads between senior and subordinated debt increased slightly (indicator 4.9).

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

The total assets of credit institutions, investment funds and other financial institutions (OFIs), and insurance corporations and pension funds increased in the second quarter of 2016. This was a turning point for the total assets of credit institutions, which had been decreasing since late 2014 (indicator 7.3). In both the EU and the euro area, the total assets of investment funds and OFIs as a percentage of the total assets of credit institutions decreased slightly (indicator 7.4). In addition, there has been a substantial increase in the ratio of short-term assets to short-term liabilities for hedge funds (indicator 7.6).