



1. Systemic risk indicators and financial market conditions

In the last quarter market indicators of systemic risks has remained stable. After a few minor spikes in the end of last year – linked to political developments – the composite indicator of systemic risk settled down in early-2017 (CISS, [indicator 1.1](#)). The equity market volatility (VIX) showed a similar development. After a few small spikes at the end of 2016, it has remained stable around 15 since early-2017 ([indicator 5.1b](#)). Furthermore, the calm market conditions were also reflected in a continuation of the trend of decreasing interbank interest rate spreads in euros ([indicator 4.1](#)).

2. Macro risk

The GDP growth across the European Union accelerated somewhat in the 2nd half of 2016. Last year the majority of the EU countries experienced faster economic growth than they had on average in the last three years. In the EU as a whole, the GDP increased by 1.9% year-on-year in 4th quarter of 2016, which is also the growth rate forecasted by the European Commission (EC) in the winter forecast ([indicator 2.1](#)). Next year the EU GDP growth is forecasted by the EC to be 1.8%.

The rate of unemployment remained unchanged in most EU countries over the last quarter. In all most all EU countries the current unemployment rate is lower than the three year average, as well as the 2016 forecast ([indicator 2.4](#)).

Relative debt levels continue to remain elevated across countries and sectors in the EU. Most countries have reduced their overall level of debt compared to GDP over the year; in relative terms, these reductions are quite moderate for most countries ([indicators 2.5a and 2.5b](#)). With respect to government debt, the level in the majority of EU countries remained well above the 60% of GDP threshold of the Stability and Growth Pact. At the same time, six countries breach the 3% threshold of the government deficit-to-GDP threshold ([indicators 2.6 and 2.7](#)).

3. Credit risk

Most EU countries have experienced credit growth over the last year. The majority of EU countries saw a positive annual growth in MFI loans to households and NFCs in January 2017. Furthermore, the growth in loans has been accelerating, as the annual growth rate in January 2017 was higher than the annual growth rate in January 2016 in most countries. A handful of countries are experiencing growth rates in loans to households or NFCs which are quite high at more than 8%. In contrast to this another set of EU countries are

still facing a contraction of loans to both households and NFCs ([indicators 3.1 and 3.2](#)). At the same time the cost of borrowing for both households and NFCs was in most countries lower in January 2017 than one year before ([indicators 3.3 and 3.4](#)). This development is among others tied to the lending margins of banks which – even if the picture is somewhat mixed – is decreasing in most cases ([indicators 3.5 and 3.6](#)).

Lending standards remained broadly stable over the quarter. For the euro area as a whole, the lending standards for loans to households and to NFCs remained broadly unchanged ([indicator 3.7 and 3.8](#)).

Residential real estate prices continue to increase across the EU. All but a few EU countries had increasing residential real estate prices between the 3rd quarter of 2016 and the 3rd quarter of 2015 as well as between the 3rd quarter of 2016 and the 3rd quarter of 2013 ([indicator 3.13](#)). Despite the increase, residential real estate prices do not appear to be overvalued in most countries of the EU, although prices do appear to be overvalued in a few countries ([indicator 3.12](#)).

4. Banks

Banks' profits have improved slightly compared to one year ago but remain low and disperse. Return to equity and return to assets were both slightly higher compared to the situation a year ago. However, both were almost unchanged relative to the 2nd and 3rd quarters of 2016. The median return on equity was slightly higher and the median return on assets slightly lower than last quarter ([indicator 6.1a and 6.1b](#)). Also cost-to-income and the net interest income compared to operating income were in the 4th quarter very close to, but slightly higher than, the previous quarters ([indicator 6.1c and 6.1d](#)).

Capitalisation of banks and their share of non-performing loans improved relative to last year. The median CET1 to risk weighted assets ratio was higher in the 4th quarter of 2016 than in 4th quarter of 2015 ([indicator 6.2 a](#)). Furthermore was the median ratio of non-performing loans (NPLs) to total gross loans and advances lower in 4th quarter of 2016 than in 4th quarter of 2015. In addition did the banks with highest share of NPLs improve relative to the situation one year ago ([indicator 6.2 b](#)).

In early-2017 banks continued the trend of issuing less long-term debt. The issuance of both covered bonds and senior unsecured debt decreased in January and February 2017 ([indicator 4.6](#)).

5. Investment funds and other financial institutions

The size of the non-banking part of the financial sector increased relatively to the size of credit institutions. Total asset of investment funds and other financial institutions (OFIs) increased slightly compared to the assets of credit institutions ([indicator 7.4](#)). Both the total assets of credit institutions, investment funds and OFIs, as well as insurance corporations and pension funds increased in absolute terms over the 3rd quarter of 2016 ([indicator 7.3](#)).