



1. Systemic risk indicators and financial market conditions

Market based measures of systemic stress in the European Union remain at low levels. There was a small uptick in the composite indicator of systemic risk in connection with the French presidential election (CISS, indicator 1.1), but it was reversed when market concerns abated. The equity market implied volatility (VIX) index showed a similar development ([indicator 5.1b](#)). Both indicators are now close to historical low levels. In addition, the CDS spread between senior and subordinated debt also declined after the French election outcome ([indicator 4.8](#)). The movement in this indicator therefore indicates that investors are less risk averse than previously.

2. Macro risk

Economic recovery in the European Union has continued in the 1st quarter of 2017. Compared with the same quarter 2016, GDP rose by 2.1% in the EU ([indicator 2.1](#)). The annual growth rate in Q4 2016 was 1.9%. The majority of the EU countries have now experienced faster economic growth than they had on average in the last three years. In its Spring Forecast, the European Commission expects GDP growth in the EU as a whole to be 1.9% for 2017.

Unemployment remains high in many EU countries, but continues its downward trend. In the majority of EU countries the current unemployment rate is lower than the three year average ([indicator 2.4](#)).

Debt levels continue to remain elevated across countries and sectors in the EU. Although most countries reduced their overall debt level in relation to GDP in 2016, these reductions were quite moderate overall ([indicators 2.5a and 2.5b](#)). The biggest reductions in debt have been seen in the sector of non-financial companies. Regarding government debt, levels are exceeding the 60% of GDP Maastricht Treaty in the majority of the EU countries ([indicator 2.6](#)). However, regarding excessive deficits, there has been some improvement as currently three member states from six previously now breach the 3% threshold of the government deficit-to-GDP threshold ([indicator 2.7](#)).

3. Credit risk

Higher credit growth to households and non-financial companies in the EU. The majority of EU countries saw a positive annual growth in MFI loans to households and NFC in April 2017. In addition, the growth rates are now higher in the majority of the countries in comparison with the same period last year, and are increasing rapidly in some countries. In contrast, some countries are still experiencing a contraction of loans. Yet, the contraction is less than it was in April 2016 ([indicators 3.1 and 3.2](#)).

The cost of borrowing for both households and NFCs remains low, reflecting the low interest rate environment. Debt servicing cost was in most countries lower in April 2017 than one year before. This is

particularly true for non-financial companies ([indicators 3.3 and 3.4](#)). The lower debt servicing costs is partly due to lower lending margins of banks ([indicators 3.5 and 3.6](#)).

Lending standards have been easing slightly over the quarter. This is especially the case for loans to households for the euro area as a whole. Lending standards for loans to NFCs has, however, remained broadly unchanged ([indicator 3.7 and 3.8](#)).

Residential real estate prices have gained further momentum in the EU. Almost all EU countries had increasing residential real estate prices between the 4th quarter of 2016 and the 4th quarter of 2015 as well as between the 4th quarter of 2016 and the 4th quarter of 2013 ([indicator 3.13](#)). Residential real estate prices in some EU countries also appear to be overvalued with regards to different valuation methods ([indicator 3.12](#)).

4. Banks

Bank profitability in the EU remains weak, but improved in Q1 2017 compared to one year ago. Return on equity and return on assets were higher in Q1 2017 compared to Q1 2016 ([indicator 6.1a and 6.1b](#)). Other indicators, such as cost-to-income and net interest income compared to operating income, have been more or less unchanged the last year ([indicator 6.1c and 6.1d](#)).

The median capitalisation of EU banks increased somewhat in Q1 2017 and their share of non-performing loans has improved. The median CET1 to risk weighted assets ratio was slightly higher in the 1st quarter of 2017 compared to the 4th quarter of 2016 ([indicator 6.2 a](#)). In relation to the same time last year, the median increased by approximately 1 pp. The median ratio of non-performing loans (NPLs) to total gross loans and advances was slightly lower in the 1st quarter of 2017, both in comparison with the 4th quarter of 2016 and the 1st quarter of 2016 ([indicator 6.2 b](#)).

5. Investment funds and other financial institutions

The size of the non-banking part of the EU financial sector increased in 2016 relative to the total assets of credit institutions. Total asset of investment funds and other financial institutions (OFIs) have increased compared to the total 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 4th quarter of 2016 ([indicator 7.3](#)).