International macroeconomic environment: global financial stability risks are rising amid weaker world economy

**Fragile financial conditions amid lost growth momentum**

Macroeconomic dynamics at the turn of the year were weaker than expected in many advanced and emerging market economies around the world. Forecasts have been revised downward, which confirms the continued fragility of the global growth momentum. Trade growth slowed down, reflecting economic rebalancing in China as well as the sharp downscaling of investment in commodity-exporting countries. Bouts of financial market volatility were observed in late 2015 and early 2016 amid rising global risk aversion, sagging global equity prices, widening credit spreads and historically low yields for safe-haven government bonds. Despite some recent improvement, these phenomena underline the high degree of uncertainty in the world economy. In Europe, notwithstanding a strong first quarter, uncertainty was amplified by a series of political events, including the upcoming Brexit referendum and the refugee influx related to geopolitical conflicts. Meanwhile, the economies in Central, Eastern and Southeastern Europe (CESEE), with the exception of Russia and Ukraine, continue to catch up to the EU average.

**Emerging market spillovers dampen recovery in advanced economies**

World economic growth remained weak and is projected to expand less in 2016 and 2017 than previously expected. Latest data showed some deceleration in U.S. economic activity but moderately increasing inflation confirmed that monetary policy tightening is likely to continue, albeit at a slow pace. Economic recovery in the euro area has solidified, driven by domestic demand that benefited from non-system monetary policy measures, low energy prices and increased expenditures for refugee accommodation. Even so, major uncertainties remain due to elevated debt levels and slow bank balance sheet repair. The low interest rate environment, caused by very low inflation and the central bank action in reaction to the latter, promotes investment and growth; however, it also poses challenges to the profitability of banks and insurers.

Global financial stability risks have increased since last fall, given a deteriorated outlook in the advanced economies and lost momentum or even sharp declines in many emerging market economies, especially those that are commodity producers. Global trade growth remains well below pre-crisis standards, partly due to lower commodity and producer prices. Declining export revenues together with substantial capital outflows have called the resilience of some emerging markets’ liquidity into question. These developments reduced investors’ risk appetite, raised credit risks and stalled balance sheet repair almost everywhere. Financial conditions tightened earlier this year and only partially reversed more recently. While advanced economies still have to cope with crisis legacy issues, financial spillovers from emerging market economies have risen in terms of heightened volatility. U.S. stock markets recovered from the sharp decline in January, while their European and Asian counterparts have still lost some ground.

In the U.S.A., real GDP grew by 0.2% in the first quarter of 2016 at the
slowest quarterly pace of change in two years. This figure, however, might include some residual seasonality subject to future upward revision. The only growth driver was personal consumption while nonresidential investment acted as a major drag. Sluggish growth translated into unemployment stagnating at 5% – close to its pre-crisis level – and low participation rates, notwithstanding the comparatively high job intensity of the current recovery, mirrored by weak productivity developments. Forecasts still expect gains in employment and income to boost growth in 2016 and 2017. U.S. consumer price inflation increased to above 1%. Core inflation declined slightly to above 2% and house prices are on an upward trend, which mainly reflects low investment levels. The Federal Reserve (Fed) has started to exit from its accommodative monetary policy by raising the federal funds rate from 0.25% to 0.5% in December 2015. The pace of U.S. monetary tightening depends on further progress toward the objectives of maximum employment and 2% inflation. The term premium for ten-year Treasuries has reached its lowest level in half a century, signaling global demand for comparatively higher yielding U.S. debt.

Japan’s GDP was up 0.5% in the first quarter of 2016 (first estimate), thus avoiding a technical recession, following a contraction in the last quarter of the previous year. Growth was driven by buoyant consumption due to increasing wages and net exports despite market turbulences in China. Headline CPI inflation has dropped below 0%, but core inflation is clearly positive, albeit declining. Long-term inflation expectations weakened over the first quarter, even though the Bank of Japan (BoJ) adopted negative interest rates in January. The BoJ has applied its policy of “quantitative and qualitative monetary easing” (QQE) for six consecutive quarters, with the aim of “converting people’s deflationary mindset.” Further fiscal stimulus is under discussion, including the postponement of a VAT increase that had been planned for spring 2017. Meanwhile, the Japanese yen has appreciated in nominal effective terms due to increasing current account surpluses (with lower commodity prices), safe-haven flows and the unwinding of carry trades.

In China, GDP growth continued its steady slowdown, reaching 6.7% in the first quarter, which is only marginally above the lower bound of this year’s only just reduced growth target. Until more recently, key economic indicators were weaker than expected: exports dropped further and private sector investment hardly grew in the first four months of the year. This confirms the ongoing transformation of the Chinese economy from export- and investment-led toward consumption-led growth. Chinese CPI fell to 2% in April and producer price deflation has softened since 2015. Still substantial excess capacity, increasing debt ratios and overheating housing markets are nourishing fears of a possible hard landing. The People’s Bank of China (PBoC) cut its base interest rate six times until October 2015 and reduced its reserve requirement ratio (RRR) for banks to a five-year low. Changes in the PBoC’s exchange rate policy in August and December 2015, which were adopted to better reflect the renminbi-yuan’s market values, raised concerns about a possible sharp depreciation of the Chinese currency. To stabilize the currency market, the PBoC tightened controls on capital outflow and intervened in the offshore currency market. The ensuing rapid reduction of China’s reserves (still the largest in the world)
International macroeconomic environment: global financial stability risks are rising amid weaker world economy

raised doubts about the sustainability of the PBoC’s monetary strategy. In January 2016, the depreciation of the renminbi-yuan caused a financial panic and capital outflows. Only since February, when the PBoC signaled its readiness to postpone exchange rate liberalization, have Chinese financial markets calmed down. In March, the fiscal authorities announced that they would support short-term growth with a budget deficit of 3% and the restructuring of the public sector.

In the United Kingdom, the pound sterling depreciated substantially against the euro, mainly reflecting fears with respect to the upcoming referendum at the end of June on Great Britain’s EU membership. In Switzerland, the central bank continued to describe the Swiss franc as “significantly overvalued” and kept its deposit rate at its negative level in the face of consumer price deflation. In June, ahead of the Brexit referendum in the U.K., the Swiss franc appreciated further, reflecting safe-haven flows and increasing the likelihood of interventions by the Swiss National Bank.

**Euro area recovery continues with very low inflation**

The recovery of euro area economic activity continues. Real euro area GDP grew at a faster pace than forecasted, namely by 0.6% in the first quarter of 2016 (quarter on quarter), driven by private consumption and investment, while net exports made a negative growth contribution. Euro area real output returned to its pre-crisis peak level. The latest data are consistent with a more moderate economic expansion in the second quarter. Among the larger euro area economies, Spain performed best, growing by 0.8%, followed by Germany and France.

Euro area inflation dipped back into negative territory in April, after having hovered around zero for the previous two quarters. Disinflation has mainly been attributable to low energy prices, which even had second-round effects on core inflation, which fell below 1%. Most euro area countries, including the four biggest ones, recorded negative inflation rates in April, some even reported deflation. Market-based long-term inflation expectations for the euro area declined to their record low earlier this year but stabilized more recently. The unemployment rate has declined steadily, reaching 10.2% in the first quarter, and employment creation continued.

Euro area fiscal policy has turned slightly expansive, while monetary policy has become even more accommodative, both in terms of standard and nonstandard measures. Given growing concerns that low inflation had become entrenched via second-round effects of low energy prices on wages and other price components, the Governing Council of the ECB further reduced the Eurosystem’s policy interest rates to 0% (main refinancing operations) and its deposit facility rate to –0.4%. At the same time, it expanded its monthly purchases of public and private sector securities to a volume of EUR 80 billion, including euro-denominated bonds issued by nonfinancial corporations. Under the new corporate sector purchase program (CSPP), six Eurosystem national central banks carry out asset purchases in both the primary and secondary markets. Purchases of Austrian corporate bonds are made by Suomen Pankki – Finlands Bank. Income and losses from these monetary policy operations are shared by all members of the Eurosystem. When implementing the CSPP, the Eurosystem is mindful of the potential impact of its purchases.
International macroeconomic environment:
global financial stability risks are rising amid weaker world economy

on market liquidity. Taken together, all purchases of public and private sector securities are intended to be carried out at least until end-March 2017 and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. Additionally, the Governing Council announced a new series of four targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years, starting in June 2016. As a result of these and previous measures, central bank liquidity in the euro area has risen to above EUR 1,600 billion and is expected to rise further by half this amount until spring 2017.

After the exchange rate of the euro had reached a trough in late November 2015 in reaction to the Eurosystem’s asset purchase program, it gradually appreciated against the U.S. dollar and, in nominal effective terms, against a basket of 21 currencies until early May 2016, amid increasing current account surpluses in the euro area. Having depreciated again to roughly USD/EUR 1.3 since then, the euro exchange rate has recently been determined by market expectations about the Fed’s continuation of monetary tightening, the extension of the Eurosystem’s asset purchase program and developments in Japan. By early June, the euro fell to its lowest level against the Japanese yen since 2013.

By the beginning of June, the representative stock index DJ Euro Stoxx rose by around 5.5% from its low in 2016, but was still 8.13% below the value recorded at end-2015. During the Chinese equity slump in January 2016, all global stock markets suffered, although implicit volatility has gener-
ally come down since the turn of the year. Commodity and financial stocks were among the stocks with the greatest losses. The U.S. Dow Jones index, however, recovered all its losses more recently.

Euro area sovereign bonds have generally strengthened over the review period, against the background of the Eurosystem’s quantitative easing and a subdued inflation outlook. Yields of German ten-year government bonds most recently stood at just around 0%, reflecting safe-haven flows. At the same time, however, spreads of non-core sovereign bond yields increased marginally to still very low levels, given concerns about Italian banks, Portuguese fiscal sustainability and negotiations on a Greek debt relief. A deal struck on the latter issue between the Greek authorities and the country’s creditor institutions at the end of May narrowed spreads on benchmark bonds in the euro area to relatively low levels. In January 2016, Brent crude oil prices dropped to below USD 30 per barrel as a result of market oversupply and weak global economic data but recovered subsequently to around USD 50 per barrel.

**CESEE: Improving asset quality and sound profitability in a broadly stable macrofinancial environment**

Compared with other emerging market regions, the CESEE region managed to cope rather well with the difficult international environment. Eurobond spreads remained stable in European emerging markets throughout 2015, while increasing strongly in other regions. However, CESEE was not able to fully decouple from international trends. Especially Russia and Ukraine continued to be affected by the ongoing conflict in eastern Ukraine, but the risk assessment for Croatia, Poland and Romania also suffered some drawbacks especially in early 2016. This led to a spike in eurobond spreads in January 2016.

In January 2016, Standard & Poor’s lowered Poland’s foreign currency rating to BBB+ with a negative outlook, citing the weakening of the independence, credibility and effectiveness of key institutions as the reason for its move. At the same time, the President of the Republic of Poland submitted a proposal for the conversion of Swiss franc-denominated loans into national currency-denominated loans. The central bank and supervisory authority assessed this proposal as problematic for financial stability. In a similar vein, major international institutions raised concerns. According to estimates by the Polish Financial Supervision Authority, the proposal might cost banks up to PLN 100 billion (some EUR 23 billion or 5.9% of total banking sector assets) in a worst case scenario. Against this background, the Polish złoti displayed a heightened degree of volatility compared to other Central European currencies.

Also in Romania, legislative initiatives in the financial sector, such as the giving-in-payment law (allowing retail mortgage borrowers to return real estate collateral to banks in exchange for writing off their loans) drew criticism by the IMF, the European Commission and the ECB, in particular due to its retroactive character.

In March 2016, Moody’s lowered Croatia’s long-term issuer rating to Ba2 and maintained the negative outlook, citing the government’s large and increasing debt burden and the weak medium-term economic growth prospects.

On a more positive note, on May 20, 2016, Fitch upgraded Hungary’s
International macroeconomic environment:
global financial stability risks are rising amid weaker world economy

long-term foreign currency rating from BB+ to BBB–, being the first rating agency to lift the country back into investment grade. The agency cited the sharp improvement in Hungary’s external balance sheet and a reduction in external vulnerability, the gradual decline in government debt and in its external and foreign currency components, and an improvement in the banking sector’s overall situation with reduced risks to economic and financial stability as the major factors behind the upgrade.

In general, the economic situation in the CESEE EU Member States was positive in the second half of 2015, with robust growth rates, declining unemployment and sound external positions. Furthermore, bond spreads and credit default swap (CDS) premiums remained on a comparatively low level, notwithstanding some episodes of increased volatility in some countries. For 2016 to 2018, we expect robust growth to continue in CESEE.1 Turkey’s economic performance also proved broadly resilient despite domestic political risk and security risks. The country’s economy, however, remains vulnerable to external shocks, given its large (though slightly decreasing) current account deficit, and has to cope with an ongoing weakness of the Turkish lira, high inflation and decreasing capital inflows.

Russia and Ukraine remained stuck in recession and burdened with political uncertainty but signs of economic stabilization emerged. In Russia, the slump in economic output in 2015 (–3.7%) had been largely triggered by the near-halving of the oil price and to a minor degree by the impact of Western sanctions in connection with the Ukrainian crisis. However, the contraction of the Russian economy has been moderating notably and seems to be bottoming out. In the first half of 2016, the Russian ruble recovered some of its earlier losses (–37% against the U.S. dollar on average in 2015) in line with a recovery of the oil price in early 2016. Nevertheless, the strong depreciation had a profound impact on inflation which, however, declined in recent months from levels of 15% – 16% in the summer of 2015 to 7.2% in April 2016 due to a base effect, persisting weak demand and a shrinking ratio of imports to GDP. Despite this development, inflationary pressures persist, prompting the Central Bank of the Russian Federation (Bank of Russia) to keep its main policy rate stable at 11% after a reduction in August 2015. Private net capital outflows from Russia sharply declined in 2015 to USD 57 billion (from the crisis-triggered height of USD 153 billion in 2014). This was largely because debt service and repayment decreased and Russian residents (banks and corporations) had repatriated some assets. State-owned banks’ and firms’ forced external deleveraging in the context of Western sanctions played an important role in the further drop of Russia’s total external debt to 39% of GDP at end-2015.

In Ukraine, seasonally adjusted GDP again expanded somewhat in the second half of 2015 (quarter on quarter), despite a drop by 9.9% in 2015 as a whole. This was certainly aided by the improved observation of the ceasefire from September 2015 onward. Yet, the OSCE special monitoring mission has reported an increasing number of ceasefire violations since the beginning of 2016. Meanwhile, disinflation, fiscal and external adjustments underpin macroeconomic stabilization tenden-

---

1 For further details, see www.oenb.at/en/Monetary-Policy/Central--Eastern-and-Southeastern-Europe--CESEE-/CESEE-Outlook.html.
cies. Having peaked at 60.9% in April 2015, inflation strongly trended downward to reach 9.8% in April 2016. The National Bank of Ukraine (NBU) cut its key policy rate by 300 basis points to 19% in April 2016 and further to 18% in May 2016 as risks to price stability had subsided. The Ukrainian current account deficit fell to 0.3% of GDP in 2015. Thanks to the current account adjustment and international financial support, official foreign currency reserves went up from USD 5.6 billion in February 2015 to USD 13.2 billion in April 2016.

However, the four-year USD 17.5 billion IMF Extended Fund Facility (EFF, USD 6.7 billion have been disbursed so far) has been on hold, as the second review, on which discussions started in September 2015, has not been finalized yet. The IMF has been waiting for more clarity about the status of the government and for conditions enabling further talks. In Kiev, new coalition arrangements were under discussion following political shake-ups that inter alia manifested themselves in the resignation of the Minister of Economy. In mid-April, a new government team was finally approved by parliament. In May, a staff-level agreement was reached on policies needed to complete the second review under the EFF. The implementation of these policies will subsequently pave the way for the IMF Board’s consideration of the review in July.

It is worth noting that Ukraine achieved progress on the subject of debt restructuring as agreed under the EFF. The restructuring of privately held external sovereign debt was completed, although the dispute over the USD 3 billion eurobonds held by the Russian National Welfare Fund has continued. Russia was offered the same restructuring terms as private creditors, but rejected the offer. In February 2016, the Russian Ministry of Finance filed a lawsuit against Ukraine. Although the IMF categorized the eurobond as official debt, Ukraine’s default on this instrument per se does not endanger the continuation of the IMF program due to a change in the IMF’s lending-in-to-arrears policy.

Domestic credit developments across CESEE (nominal lending to the non-bank private sector adjusted for exchange rate changes) were heterogeneous in the review period. A somewhat improving momentum, however, was observed for several of the CESEE EU Member States.

In Slovakia and the Czech Republic, for example, credit growth has been accelerating slowly but steadily since 2013 and came in at 10.6% and 8.7%, respectively, in April 2016. In Slovakia, especially corporate credit accelerated swiftly, mirroring the strong increase of capital formation. Credit developments in both countries were fueled by more favorable expectations for general economic developments and a sound liquidity position. Furthermore, banking sectors are in a healthy shape, with low nonperforming loan (NPL) ratios, sound profitability, deposit overhangs over credit, persistent competitive pressure as well as low stocks of foreign currency loans.

Credit growth was also rather swift in Poland. The key indicators of the country’s banking sector, however, are somewhat weaker than in Slovakia and the Czech Republic (e.g. loan-to-deposit ratio, profitability). Furthermore, Poland still reports a substantial share of foreign currency loans (especially Swiss franc-denominated loans) in total loans.

Credit growth in Romania rebounded and came to 2.5% in April 2016, reflecting strong consumption
International macroeconomic environment: global financial stability risks are rising amid weaker world economy

and wage growth, the surge of investments in the final quarter of 2015 as well as an ongoing NPL workout. Some more positive momentum was also observed in Slovenia: The expansion of credit to households turned mildly positive, which had a favorable impact on total credit to the private sector. But the overall credit stock continued to contract in the review period. Nevertheless, the country made some progress in cleaning up balance sheets, raising banking sector profitability and improving capitalization.

The contraction of the credit stock moderated noticeably in Bulgaria and Hungary. In both countries, base effects were responsible for a large part of this development. In Bulgaria, the effect of the exclusion of Corporate Commercial Bank’s assets from banking statistics in November 2014 dropped out of the base. In Hungary, the strong credit contraction in the first quarter of 2015 was related to the conversion of foreign currency loans to households at an exchange rate that was below the prevailing market exchange rate. Hungary continued this policy, and a further tranche of loans was converted in December 2015.

Credit markets in the other countries under observation did not show any positive signs. In Croatia, the process of converting and partially writing off loans denominated in Swiss francs, which was initiated in the last quarter of 2015, added to the impact of the debt overhang and the lack of collateral, thus causing credit growth to decline further in the review period.

Credit growth also moderated substantially in Turkey and Russia and remained deep in the red in Ukraine. In Russia and Ukraine, this development was clearly related to the ongoing economic recession. In Turkey, loan growth came down substantially from high levels against the background of macroprudential measures adopted in previous years. However, the Turkish central bank adjusted consumer loan risk weights to support this loan segment as the growth of consumer loans

...and a continuing slump especially in Russia and Ukraine

Growth of credit to the private sector

Year-on-year change in %, adjusted for exchange rate changes

Chart 2

Source: National central banks.
has fallen short of that of commercial loans since the start of 2014.

Lending surveys clearly indicated a pickup of credit demand in CESEE. The development of supply conditions, however, was less straightforward. The most recent CESEE Bank Lending Survey of the European Investment Bank (EIB) found that demand for loans improved across the board in the second half of 2015. This marked the fifth consecutive semester of positive developments. All factors influencing demand made a positive contribution to loan demand. At the same time, supply conditions only relaxed somewhat, thus increasing the demand-supply gap. NPLs, the regulatory environment and banks’ capital constraints were perceived as the main factors adversely affecting supply conditions. Access to funding continued to become easier, supported by ready access to retail and corporate deposits, while intragroup funding contracted somewhat. For the first half of 2016, banks anticipate a further broad-based pickup in credit demand. Loan supply conditions are also expected to become more flexible, but supply will continue to fall short of demand.

Country-level bank lending surveys support this general picture. Demand rose more or less uniformly in all CESEE countries and among all sectors over the review period. In most cases, supply conditions also improved. The extent of easing supply conditions, however, was not uniform across the region. While some countries (e.g. the Czech Republic) reported a rather broad-based easing, the development tended to be confined to specific sectors or loan classes in most other countries (e.g. Bulgaria, Hungary and Romania). Banks generally expected those trends to continue in the coming months. Interestingly, also the NBU lending survey reported a more positive outlook for credit developments.

Unlike banks in the rest of the CESEE region, Turkish banks reported lower demand for household and especially for corporate loans (which was traceable to lower demand for investment financing). At the same time, credit standards for loans to enterprises were tightened, as the general perception of risk (i.e. the general and the industry-specific risk outlook as well as the outlook for risk on collateral) deteriorated.

Analyzing the operation of international banking groups in CESEE, the EIB survey found that banking groups continue to selectively reassess their country strategies and discriminate between countries of operation. Nevertheless, more than two-thirds of banking groups describe profitability in CESEE operations as outperforming the profitability of the group as a whole. This explains why a significant number of banking groups signal intentions to expand operations selectively. Market potential continues to differ significantly across the CESEE countries.

NPL resolution progressed in the review period. Only Russia and Ukraine reported a strong increase in NPL ratios. In most other CESEE countries, NPL ratios either remained largely unchanged at a comparatively low level (Czech Republic, Poland, Slovakia, Turkey) or decreased. The decrease was most pronounced in Hungary, where the compensation of households by banks for abusive terms in loan contracts had to be used for the settlement of arrears in the case of NPLs. Furthermore, a large bank sold a substantial NPL portfolio at the end of 2015. NPL ratios also declined substantially in Bulgaria, Romania and Slovenia due to banks’ active portfolio cleansing. In Bulgaria, this happened
International macroeconomic environment: global financial stability risks are rising amid weaker world economy

against the background of an asset quality review and stress test based on financial data from end-2015. In Slovenia, the transfer of another tranche of NPLs to a bad bank further helped bring down bad loans.

The lower net creation of reserves and provisions had a positive impact on banking sector profitability in many CESEE countries. The return on assets in Hungary, Romania and Slovenia improved substantially in 2015 against 2014. For the first time since 2009, the Slovenian banking sector even reported a positive annual result. At the same time, income (especially interest income) was often somewhat lower than in 2015. In most other CESEE EU Member States, profitability remained broadly unchanged in the review period; it declined moderately in Poland and Turkey.

A notable deterioration, however, was reported for Croatia, Russia and Ukraine. In Russia, the return on assets plunged to –5.5% as the creation of reserves and provisions and write-offs increased strongly compared to a year earlier. In Croatia, the costs of the conversion of loans indexed to the Swiss franc into euro-denominated loans considerably burdened the banking sector.

Capital adequacy ratios remained high and broadly stable in most of the countries under review in 2015. In the CESEE EU Member States, they ranged between 16.3% in Poland and 20.9% in Croatia. In Turkey, capitalization declined moderately to 15%.

Notably lower capital adequacy ratios were reported for Ukraine and Russia. In Ukraine, deteriorating credit quality and profitability pushed the capital adequacy ratio to only 7.1% in the third quarter of 2015, a level that no longer complied with the regulatory minimum level of 10% set by the NBU. Capitalization, however, improved again in the fourth quarter (to 12.3%) related to an increase in the regulatory capital of foreign-owned banks and a reduction in risk-weighted assets. In Russia, the capital adequacy
ratio remained broadly stable at 12.7% at the end of 2015. The impact of a higher share of nonperforming assets and decreasing profitability was buffered by a government-funded capitalization program.

The refinancing structure of CESEE banking sectors has increasingly shifted toward domestic deposits over the past few years. This is especially true for those CESEE EU Member States that recorded no substantial or a negative gap between total outstanding domestic claims and total domestic deposits (relative to GDP) at the end of 2015. The funding gap was somewhat larger in Russia and substantially so in Ukraine and Turkey.

In the second half of 2015, funding gaps decreased in all countries under observation. The decline was most substantial in Ukraine (−7.8% of GDP). Bulgaria, Croatia, Hungary and Russia also reported notable reductions (by more than −5% of GDP). The development was driven by lower claims as well as by rising deposits in these four countries. In Ukraine, deposit displayed a downward trend, too. In the Czech Republic, Poland and Slovakia, deposits increased more strongly than claims, bringing the funding gap down by some 2% of GDP on average. The gap only declined very moderately in Turkey (−0.4% of GDP).

The banking sectors of five of the eleven countries under observation reported net external liabilities by the end of 2015. These liabilities were particularly large in Ukraine (−7.8% of GDP) and Turkey (−3.2% of GDP). The funding gaps continue to be moderate in most CESEE countries.
end of 2015, mostly ranging between 2% and 8% of GDP. Only Turkey recorded substantially larger net external liabilities. The Croatian banking sector became an international creditor in the review period, reflecting lower refinancing needs and rising domestic deposits.