

International macroeconomic environment: declining global growth reflects further slowdown in emerging markets and weaker recovery in advanced economies

Subdued global growth amid slowdown in emerging markets and weaker recovery in advanced economies

Macroeconomic conditions have gradually strengthened further in Europe in 2015, as the momentum of growth has shifted from emerging to advanced economies. Still, euro area growth prospects have remained muted, with the risks surrounding the economic outlook tilted to the downside given heightened macrofinancial vulnerabilities risks in major emerging economies.

At the global level, the prospect of diverging monetary policy trends in major advanced economies, ongoing geopolitical tensions and continued volatility in emerging economies and global commodity markets could lead to a renewed increase in vulnerabilities.

Growth in emerging and developing Europe is projected to remain broadly stable in 2015. The region has benefited from lower oil prices and the beginning recovery in the euro area, but at the same time has been affected by the contraction in Russia and other emerging markets and the impact on investment of still-elevated corporate debt.

Asset quality in Eastern European banking sectors has slightly improved due to the gradual starting of nonperforming loan (NPL) resolution in several countries. This also had positive effects on the profitability of banks in the first half of 2015. Across most of the region banks continued to be well capitalized. However, the implementation of macroprudential measures that

have been announced in some countries will raise regulatory requirements.

Global growth affected by emerging market slowdown

The pace of global economic growth slowed down further in the review period from June to October 2015, and the world economy is expected to expand less in 2015 and 2016 than anticipated. While the outlook and economic performance improved in the U.S.A., the recovery lost steam in Europe and growth continued its slowdown in emerging economies, which suffer from financial volatility, low commodity prices and capital outflows. New data on U.S. economic activity signaled some improvement and reduced uncertainty about the forthcoming monetary policy normalization in the U.S.A.

In the euro area, the recovery has continued, mainly driven by domestic demand and net exports and supported by the Eurosystem's asset purchase program and low energy prices. In spring, yields on euro area government bonds rose temporarily, triggered by the resurgence of the Greek sovereign debt crisis, but returned to a declining path driven by the accommodative stance of monetary policy and continued subdued inflation expectations.

Global stock markets rebounded after their sharp but short slump related to China's bursting equity bubble in August. In Europe, stocks were also weakened by developments in Greece and, more recently, in automotive markets. In emerging markets, stock prices came under additional pressure by falling commodity export revenues, the

Economic activity back on growth track in the U.S.A., shrinking in Japan and subdued in emerging markets

expected impact of rising policy rates in the U.S.A. on foreign debt as well as domestic vulnerabilities.

In the U.S.A., real GDP grew by 0.4% (quarter on quarter) in the third quarter of 2015, following a very strong second quarter and a weak start to the year. Apart from a sizable inventory correction, the growth drivers remained intact, notably personal consumption, together with residential investment and public consumption. Going forward, household spending is expected to be buoyed by a further firming of the labor market, with unemployment down to 5.0% – close to its pre-crisis level – albeit lower participation rates and slow labor income expansion. Credit conditions have also been favorable while net exports could act as a drag on activity given a strong U.S. dollar and weak foreign demand. The threat of a more restrictive fiscal policy has been averted by bipartisan legislation that suspends the debt ceiling until after the 2016 presidential election. Monetary policy has remained accommodative, but the Federal Reserve is preparing the public for a raise in the federal funds rate in December conditional on further progress toward its objectives of maximum employment and inflation at 2%. Consumer price inflation has turned negative, declining 0.2% in September after –0.1% in August. Excluding the volatile components food and energy leaves the CPI index at a mere 0.2% in September.

Japan fell into its second technical recession within only two years. Japanese real GDP shrank in the second and third quarters (–0.2% each, quarter on quarter), mainly because of weak investment and inventory building in reaction to slowing demand from China. Despite unemployment falling below its assumed structural level (3.4% in August) wage growth was

anemic. In September, headline CPI inflation was 0% and core inflation even negative. Long-term inflation expectations – an indicator targeted by the Bank of Japan (BoJ) – weakened broadly over the third quarter. Since fall 2014, the BoJ has applied its policy of “quantitative and qualitative monetary easing” (QQE), with the aim of “converting people’s deflationary mindset.” The Japanese government reacted to the renewed recession by postponing its planned increase of the value added tax to spring 2017. Structural reforms – the “third arrow” of the Japanese prime minister’s “Abenomics” are seen to be key for achieving long-term growth.

In China, growth came in slightly higher than expected in the third quarter, still consistent with a gradual slowdown in the Chinese economy, which is currently undergoing a transition from export- and investment-led toward consumption-led growth. This process toward sustainability negatively affects China’s trading partners in the short term through a sharp fall in the country’s imports to a seven-month low and declining commodity prices. The Chinese CPI dropped to 1.6% in August, and producer price deflation deepened in its fourth year. Although concerns about the Chinese economy’s risks of a “hard landing” remain, the latest measures adopted by the Chinese authorities to contain the stock market downturn in reaction to the foreign exchange rate regime change in August appear effective. The People’s Bank of China (PBoC) has repeatedly intervened in currency markets, which it opened to foreign central banks in September. The Chinese renminbi overtook the Japanese yen to become the fourth most-used currency for global payments. Uncertainty remains about how the PBoC will and can manage the

transition to a more freely-floating exchange rate. More recently, the PBoC announced the third round of “two-track” monetary easing in 2015, cutting benchmark interest rates (for the sixth time in a year) and reserve requirements, particularly for bank lending to the agricultural sector and SMEs. As a further step toward interest rate liberalization, the rate ceiling for deposits has now been fully removed.

In Switzerland, the central bank warned in September that the value of the Swiss franc remained “significantly overvalued” and announced that it would remain active in the foreign exchange market to soften the impact on the Swiss economy.

Euro area recovery continues, with inflation remaining subdued

The economic recovery in the euro area continued in 2015. Real GDP grew by 0.4% (quarter on quarter) in the second quarter, slightly less than in the previous quarter, reflecting positive contributions from private consumption and – to a lesser extent – net exports. Euro area real output remained 0.8% below its pre-crisis peak. The latest data are consistent with a continued moderate economic expansion in the third quarter. Among the larger euro area economies, Spain performed best, growing by 1%, while Germany and Italy continued to grow moderately, and France stagnated.

Euro area inflation dipped back into negative territory in September but touched the zero line in October. The recent weakness has mainly been driven by energy and food prices, while core inflation has gradually increased to 1%. Headline inflation was below 1% in almost every country of the euro area; Spain and Greece continued to experience outright deflation. Market-based euro area-wide inflation expectations

declined during the summer but have stabilized since then. The unemployment rate continued to decline slowly but steadily, reaching 10.8% in the first quarter. Employment creation gathered pace in the second quarter.

Against the background of a rather neutral fiscal stance, monetary policy has become even more accommodative. This is true for the Eurosystem’s conventional policies, with key interest rates at record low levels (negative deposit facility rate) as well as its asset purchase program, particularly concerning public sector securities in response to the risks of too prolonged a period of low inflation. The ECB continued its monthly purchases of public and private sector securities worth EUR 60 billion. They are to be carried out at least until the end of March 2017 and in any case until the ECB 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 Eurosystem kept liquidity injected into the banking system via its targeted longer-term refinancing operations (TLTROs), which are conditional on new lending to the real economy, in particular SMEs. As a result of these measures, central bank liquidity has risen to above EUR 1,200 billion and is expected to rise further by half that amount in 2016.

After the exchange rate of the euro had reached a trough in spring 2015 following a steep decline due to the effects of the asset purchase program, it gradually appreciated against the U.S. dollar and in nominal effective terms against a basket of 21 currencies until mid-October, when a renewed drop set in. Falling to below USD/EUR 1.1, the euro exchange rate has recently been determined by market expectations about the Federal Reserve’s timing of

ECB continues asset purchase program supporting euro area bonds

monetary normalization, the extension of the Eurosystem's asset purchase program and developments in China.

The representative stock index DJ Euro Stoxx rose by around 3.5% in the review period, almost three times the increase of the comparable U.S. Dow Jones Industrials. In the wake of an equity slump in China, global stock markets became more volatile, but recovered most of the losses until recently. Over the whole year, the DJ Euro Stoxx rose by around 12%. Euro area sovereign bonds have been volatile over the review period, weakened by fears surrounding a possible "Grexit" until early summer; more recently they have restored part of their earlier strength against the background of the Eurosystem's quantitative easing and a subdued inflation outlook, only dented slightly by the sharp decline in U.S. Treasury prices. Yields of German ten-year government bonds recently stood at ½%, after peaking at almost 1% in early June and recovering from a record low of almost zero in April due to flight-to-safety effects triggered by the resurgence of the Greek crisis. More recently, also non-core sovereign bond yields remain on a downward trend, as do U.S. Treasury and Japanese government bond yields. In the review period oil prices traded in a range of USD 40 to USD 50 per barrel, dampened by market oversupply and signals indicating a global slowdown.

CESEE: Sound macrofinancial developments in the CESEE EU Member States but situation in Russia and Ukraine remains challenging

The international environment for the CESEE region has become more challenging over the review period. Market volatility increased against the background of stock market turbulences

followed by doubts about the sustainability of high growth in China and heightened uncertainty concerning the timing and pace of anticipated rate hikes by the Federal Reserve. This caused a broad-based reassessment of risk especially in emerging markets, which went hand in hand with capital outflows, currency depreciations and asset price deflation in a considerable number of countries. The IMF adjusted downward its growth forecasts for the world economy (especially those for emerging market and developing economies in Asia and Latin America) and for world trade. In this global setting, the strengths and weaknesses of individual CESEE countries became clearly visible.

Most CESEE EU Member states in the country sample covered in this report stand out positively, showing hardly any negative impact of the above-mentioned developments. Exchange rates were broadly stable, equity prices did not post substantial losses and bond spreads as well as CDS premiums remained by and large compressed compared to historical levels. Several factors made these countries especially resilient: while emerging markets around the globe had received substantial capital inflows (a considerable part of which were short-term) in the context of monetary accommodation and quantitative easing in advanced economies and, consequently, financing conditions were rather loose, CESEE EU Member States were much less affected by this development. On the contrary, a number of countries of the region saw large-scale deleveraging in the years after the outbreak of the global financial crisis. Furthermore, the CESEE EU countries have become more resilient over the past few years, following a much more balanced growth model compared to pre-crisis times: domestic

Sound macrofinancial developments in CESEE EU Member States despite a more challenging international environment

demand has played an increasingly important role recently amid continued (and in some cases substantial) current account surpluses. The incipient recovery in the euro area and low oil prices have also contributed to supporting growth in the CESEE EU Member States lately. The effects of all of these factors were reflected in strong GDP growth in the first half of 2015.

Growth was vivid also in Turkey. While having become more fragile, growth also benefited from some fiscal impulse ahead of the parliamentary elections in June 2015. Credit growth and inflation stood above the targets of the central bank. The country also continued to run a substantial current account deficit, financed to a large extent by portfolio and short-term capital inflows. On top of that, political uncertainty and geopolitical risks increased in the review period. The elections did not result in a clear majority for any party. The failure to form a coalition government thereafter made it necessary to hold snap elections in November; ensuing political uncertainty added to an all-time low in the consumer confidence index in September 2015. As security risks increased, uncertainty over global liquidity conditions have prevailed and external refinancing needs have remained elevated. Turkish five-year CDS spreads rose to their highest level in three years in early October 2015, before declining again somewhat. The Turkish lira has been under noticeable depreciation pressure too. Between the beginning of 2015 and mid-September, the currency weakened against the U.S. dollar by 24%. Against the euro, it depreciated by 17%. In late July, the Turkish central bank attempted to counter these depreciation pressures by cutting the one-week FX lending rates (by 50 basis points to 3% for U.S. dollar deposits

and 25 basis points to 1.25% for euro deposits), while keeping its policy rate (one-week repo, borrowing and lending rate) unchanged. The Turkish lira has appreciated somewhat since.

Russia and Ukraine were also affected by financial market stress, with Russia slipping into recession in the first half of 2015. The reasons for this are well known and mainly relate to the deep slump in oil prices and the international sanctions in the context of the conflict in Ukraine. The sanctions also implied that Russia has been de facto cut off from international financial markets. This tightened funding conditions but also shielded the country from most of the disruptions in financial markets that were observed elsewhere in the review period. Nevertheless, the ruble depreciated in line with the declining oil price and in August 2015 returned to levels comparable to the trough reached in late 2014. The exchange rate pass-through but also Russia's countersanctions (involving a ban on food imports from countries sanctioning Russia) lifted inflation into the double digits. In recent months, however, inflation has abated somewhat, providing room for some monetary easing against the background of a deepening economic contraction in the first half of 2015. The Central Bank of the Russian Federation decided to cut the key interest rate from its emergency-triggered high level of 17% (December 2014) by 600 basis points to 11% in August. Private net capital outflows declined somewhat to USD 52.5 billion in the first half of 2015 (compared to a record level of USD 69.4 billion in the first half of 2014). Russia's international reserves continued to decline until March and April 2015, when they reached USD 356 billion, before they stabilized and increased somewhat again to USD 371 billion in late Sep-

Further deterioration of the macro-financial situation in Russia and Ukraine

Turkey becomes more vulnerable

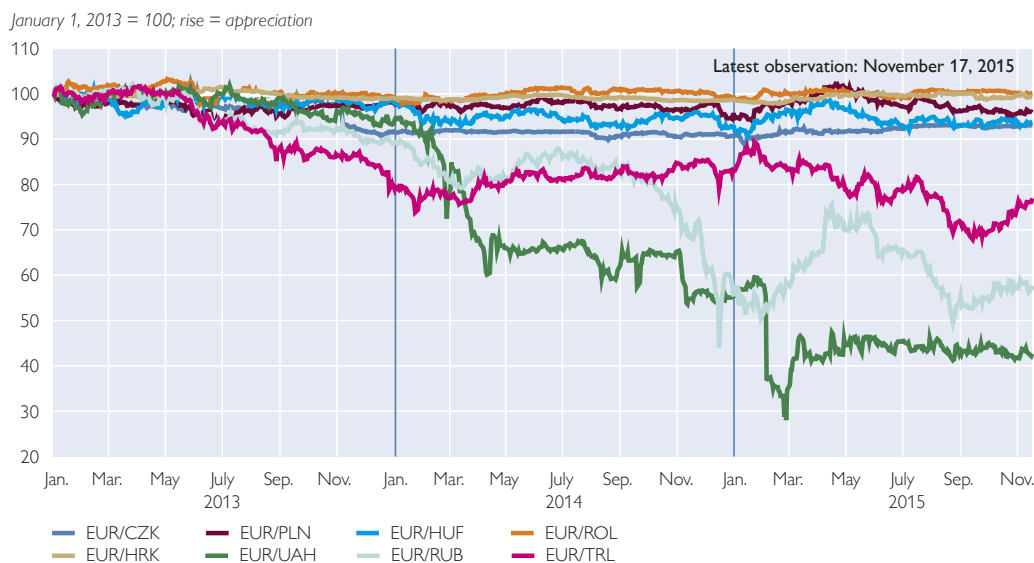
tember 2015. External deleveraging forced on Russian state-owned banks and enterprises in the context of the sanctions against the country played a key role in the further drop of the country's total external debt to USD 556 billion (around 39% of GDP) in the first half of 2015.

In Ukraine, economic activity plunged by 15.8% in the first half of 2015, but the downward trend decelerated markedly in the second quarter. Since March 2015, the Ukrainian hryvnia has remained broadly stable against the euro and the U.S. dollar. The National Bank of Ukraine (NBU) reduced its key policy rate in two steps from 30% to 22%, citing disinflationary developments. Inflation peaked at 60.9% in April before gradually declining to 51.9% in September 2015. Thanks to a current account adjustment (reflecting a weak currency, weak domestic demand as well as terms of trade effects) and official financing from the IMF, the EU, the World Bank and

other creditors, the NBU's foreign exchange reserves doubled to USD 12.7 billion between end-March and end-September 2015, thus covering currently three months of import volume. The first review under the IMF Extended Fund Facility (EFF) was concluded at end-July. Talks on the second review were held in late September and early October, but some issues, in particular some policy and reform measures to be taken in 2016, remained outstanding, and therefore discussions will continue. In late August, the Ukrainian government achieved an agreement with the creditors' committee on the restructuring of privately held external sovereign debt in line with the IMF program. The deal contains a 20% nominal haircut and a four-year maturity extension as well as GDP-linked warrants to compensate bondholders for losses if the economy performs well in 2021–2040. At a bondholders' meeting in mid-October, creditors (more than 75% for each

Chart 1

Exchange rates of selected currencies against the euro



Source: Thomson Reuters.

bond) approved the debt exchange offers for 13 out of 14 series of bonds. No approval was obtained for the USD 3 billion Eurobond maturing in December 2015, as its holder, the Russian National Welfare Fund, did not take part in the voting. Russia regards the bond as official financing and has not accepted the restructuring terms. It is still unclear how the IMF would handle the issue if Ukraine defaulted on this bond. Yet, some IMF shareholders are preparing a change in the IMF's policy with regard to lending to countries that are in arrears to official creditors to continue the IMF program with Ukraine. Also, Standard & Poor's has already raised its foreign currency sovereign rating from selective default to B-.

Credit developments (nominal credit to the private nonbank sector and adjusted for exchange rate changes) were rather heterogeneous across CESEE in the review period. Credit growth rates remained at a comparatively high level in Poland and Slovakia and increased noticeably in the Czech Republic. In the latter, especially corporate credit expanded swiftly, mirroring a strong increase in gross fixed capital formation. Solid credit expansion rates in those countries were attributable to both favorable demand (related to rising domestic demand) and supply conditions (related to generally healthy banking sectors with low NPL ratios, high profitability and – in the Czech Republic and Slovakia – deposit overhangs as well as low stocks of loans denominated in foreign currency). Apart from the Czech Republic, also Romania reported some improved momentum in credit expansion as household loan growth accelerated. Overall, however, credit to the private sector still de-

clined by –0.8% in Romania in August 2015.

Slovenia and Croatia, in turn, reported broadly stable, though negative credit growth rates. In Bulgaria and Hungary, credit growth rates slipped deeper into negative territory. While in the latter, this was related to a deep recession, statistical reasons played a role in Bulgaria and Hungary. In Bulgaria, the central bank revoked Corporate Commercial Bank's license for conducting banking activities in November 2014. This move implied that the bank's loans (amounting to some BGN 5.2 billion) were no longer included in the official banking statistics. This exerted a strongly negative base effect on credit growth in the review period. Even without this effect, however, credit growth would have been muted and declined to around zero. In Hungary, mortgage loans to households denominated in Swiss francs were converted into forint loans at an exchange rate below the prevailing market exchange rate in the first quarter of 2015. As a result, the share of foreign currency loans to households in total loans to households shrank from more than 50% in December 2014 to below 5% in August 2015. Hungary has announced to continue this conversion policy, aiming at eliminating foreign currency loans in the household sector altogether.

An unsustainably high rate of credit growth was reported for Turkey, reaching levels of close to 20% year on year throughout 2015. Despite a moderate decline in recent months, credit expansions remained notably above the central bank's target. Contrary to that, credit growth in Russia halved from 12% to 6% and declined further to –20% in Ukraine against the back-

Heterogeneous credit developments in CESEE

Efforts toward converting Swiss franc loans

Favorable outlook for lending conditions in CESEE

ground of the deepening economic contraction.¹

The strong appreciation of the Swiss franc after its exchange rate floor vis-à-vis the euro was lifted in January in combination with the existence of a notable stock of Swiss franc-denominated credit also prompted Croatia and Poland to take steps toward a conversion of Swiss franc loans. Croatia already adopted a legal act stipulating the conversion of household loans denominated in Swiss francs into euro loans. The costs of this measure are estimated at EUR 1 billion and are envisaged to be borne by the banking sector. However, the law has been contested in court by several banks. Discussions on the issue of foreign currency loans are ongoing also in Poland, where the new government is also planning a conversion of Swiss franc mortgage loans into złoty loans. The details of this plan have not been decided yet, however.

The following CESEE countries continued to report a notable share of foreign currency-denominated loans to

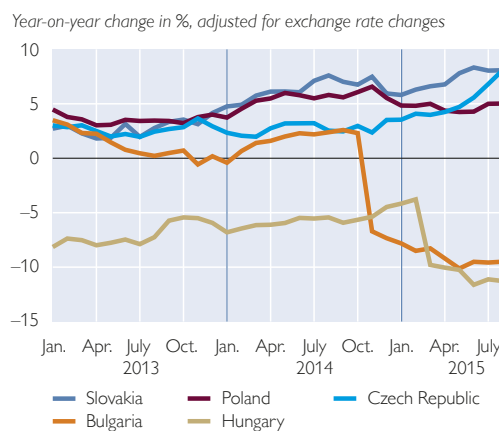
households by August 2015: Croatia (close to 70%), Ukraine and Romania (around 50% each) and Bulgaria and Poland (around 30% each). In all these countries, however, the share has been shrinking throughout the review period, most strongly so in Ukraine (-7 percentage points).

Despite rather heterogeneous developments across credit aggregates, available lending survey results for the countries of the region draw a rather uniform and by and large positive picture of lending conditions.

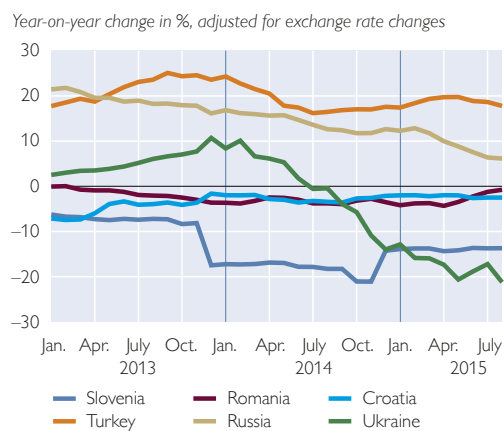
The most recent CESEE Bank Lending Survey of the European Investment Bank (EIB), covering CESEE EU Member States and Western Balkan countries, reported that lending conditions had improved over the first half of 2015 and were expected to improve further over the next six months. Aggregate credit supply restrictions eased almost across the board and are expected to gradually ease further. NPLs and regulation, at both the national and international level, remain the most often cited factors constraining credit

Chart 2

Growth of credit to the private sector



Source: National central banks.



¹ For further information on the Russian banking sector see Barisitz, S., "The Russian banking sector – heightened risks in a difficult environment" (p. 71) in this report.

supply. Demand for loans improved marginally across the board, marking the fourth consecutive half-year of improvement. Demand was up not only for debt restructuring and working capital, but also for investment. Funding conditions have been fairly favorable and eased across all sources of funding. Local bank funding continues to play a dominant role, substituting for decreased intragroup funding. Aggregate NPL figures did not deteriorate further in the review period, signaling that a turning point may now have been reached. Yet, NPL levels remain high and constitute a key concern for the region's banks. Available national bank lending survey results for the Czech Republic, Romania, Hungary, Poland and Bulgaria support this general picture. However, some regional differences concerning the pace and dimension of easing in bank lending conditions remain.

The Russian bank lending survey also found some easing of lending conditions in the second quarter of 2015, after five quarters of (partly substantial) tightening. Once again, Turkey is different: Funding conditions were reported to have tightened considerably in the second and third quarters and are expected to continue to do so also over the next three months. Credit standards also tightened for corporate and mortgage loans. While demand for corporate loans decreased noticeably, it was somewhat higher for housing and consumer loans in the third quarter.

Concerning the operations of international banking groups in the region, the EIB survey found that the CESEE region remains relevant in the strategies of international banking groups. However, banks continue to be selective in their country-by-country strategies. Roughly 55% of the groups surveyed expect to expand operations,

while another third may reduce operations in the region. Roughly half of the groups signal that they have been reducing their total exposure to the region already, while only little less than 30% expect to continue to do so. The profitability of CESEE operations has been gradually climbing back up again, and banks continue to reassess the potential of some of the region's markets in light of differing profitability and market-positioning stances.

While Russia and Ukraine reported a strong increase in NPL ratios, credit quality turned out broadly favorable in the other CESEE countries. NPL ratios either remained largely unchanged on a comparatively low level (Czech Republic, Poland, Slovakia, Turkey) or decreased. The decrease was most pronounced in Romania, where banks removed uncollectible loans from their balance sheets that were fully or largely covered by adjustments for impairment and/or started to sell NPL portfolios. The quality of the loan portfolio, however, also improved substantially in Bulgaria, Hungary and Slovenia. In Bulgaria, a part of this development has to be attributed to the introduction of new reporting standards for NPLs in 2015. However, banks were also cleaning up their balance sheets against the background of a planned asset quality review and stress test that will be based on financial data as at end-2015. In Hungary, the decline in the NPL ratio was supported by the compensation of households by banks for abusive terms in loan contracts, which – in the case of NPLs – had to be used for the settlement of arrears. In Slovenia, the improvement in loan quality was fueled by the transfer of a further tranche of NPLs to a bad bank.

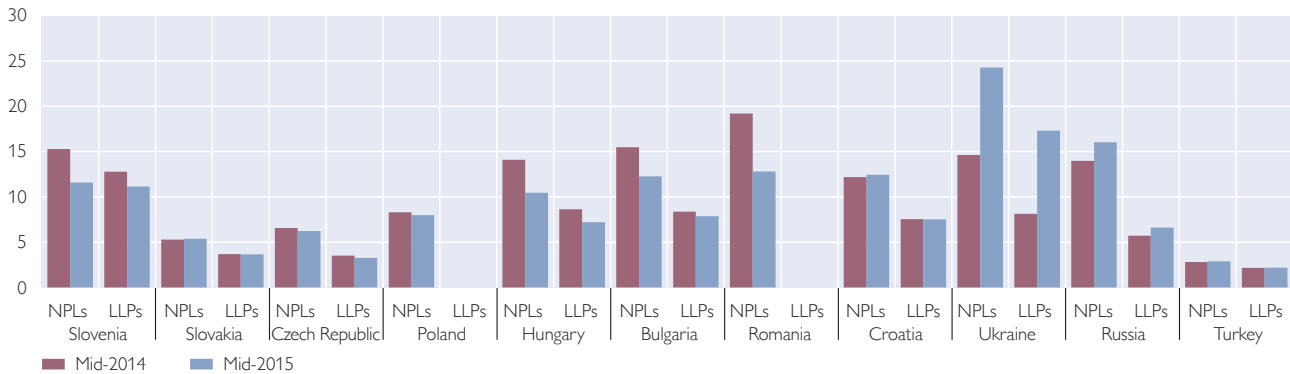
Against the background of improving loan quality, banking sector profitability recovered somewhat in Slovenia,

Credit quality improves in many countries...

...which has a positive effect on profitability

Banking sector: credit quality

Nonperforming loans (NPLs) and loan loss provisions (LLPs) in % of total credit at end of period



Source: IMF, national central banks, OeNB.

Note: Data are not comparable between countries. NPLs include substandard, doubtful and loss loans, except for Ukraine (doubtful and loss loans) and for Romania and Slovenia (in arrears for more than 90 days).

Most banking sectors remain well capitalized

Bulgaria and Romania and substantially so in Hungary in the first half of 2015 compared to the previous year. In all these countries, this recovery was driven to a substantial extent by a lower net creation of reserves and provisions. At the same time, income (especially interest income) was often somewhat lower. In the other CESEE EU Member States and Turkey, profitability remained broadly unchanged, with the return on assets coming in at a satisfactory 1% to 1.5%.

A notable deterioration was only reported for Russia and Ukraine, against the background of a general economic recession in those countries. In Russia, the return on assets declined to close to zero as higher refinancing costs related to Western financial sanctions weighed on interest income. In Ukraine, the return on assets plunged to almost -5% as the creation of reserves and provisions as well as writedowns doubled compared to a year earlier.

Given improving profitability, banking sectors in Hungary, Romania and Bulgaria but also in Croatia were able to increase their capital base by around 1%. In contrast, especially

Ukrainian banks are less capitalized today than they were a year ago. The capital adequacy ratio declined by 6.8 percentage points to 9%, and therefore no longer complies with the regulatory minimum level of 10% set by the Ukrainian central bank. The plunge was mostly due to the above-mentioned deterioration in credit quality and profitability. The central bank requires credit institutions to reach a capital adequacy level of at least 5%, 7% and 10% by February 1, 2016, late 2017, and late 2018, respectively. Despite generally similar problems, the capitalization of the Russian banking sector remained broadly unchanged in the review period as capital positions were supported by state capital injections. Capital adequacy ratios ranged from 14.8% in Turkey to 22.3% in Bulgaria and Croatia in June 2015. They were notably lower only in Russia and Ukraine at 12.9% and 9%, respectively. The refinancing structure of CESEE banking sectors has increasingly shifted toward domestic deposits during the past few years. This is especially true for those CESEE EU Member States under review in this report that had no or a

Chart 4

slightly negative gap between total outstanding domestic claims and total domestic deposits (relative to GDP) in 2014. The first half of 2015, however, brought a reversal of this trend in several countries. The relation between claims and deposits deteriorated somewhat in Slovakia, the Czech Republic, Romania, Croatia and Poland. Most of these countries, however, continued to report an overhang of deposits over claims. Only Poland reported a genuine funding gap of about 5% of GDP (up from 3% at the end of 2014) as the growth of claims outpaced the growth of deposits.

Funding gaps were much larger in Russia, Turkey and Ukraine, ranging between 11% of GDP (Russia) and 23% of GDP (Turkey). Unlike in Russia and Ukraine, the funding gap even widened further in Turkey in the review period (by 2.6% of GDP) as claims continued to grow faster than deposits.

The banking sectors of six of the ten countries under observation re-

Banking sector: profitability

Return on assets (RoA) in %



Source: IMF, national central banks, OeNB.

Note: Data are not comparable between countries. Data are based on annual after-tax profits, except for Russia's, which are based on pretax profits.

ported net external liabilities by June 2015, which mostly ranged between 5% of GDP and 10% of GDP. Only Turkey recorded substantially larger (and increasing) net external liabilities.

Chart 5

Banking sector: gap between claims and deposits and net external position

As a percentage of GDP at mid-2015



Source: ECB, Eurostat, national central banks, national statistical offices, OeNB.