Banking in Europe: EBF Facts & Figures 2019

The data contained in this publication has been compiled from publicly available information released by the European Central Bank, European Commission, Eurostat, the European Banking Authority, national competent authorities and members of the European Banking Federation. Unless otherwise noted, all graphs and tables have been produced to illustrate the figures mentioned in the relevant chapters.

Due to rounding, figures presented in the charts throughout this document may not sum.

The projections presented in chapter one have been compiled from the EBF Spring 2019 Economic Outlook, a bi-annual report prepared by the European Banking Federation's Chief Economists' Group. European Commission data for previous years

Figures provided in the country-by-country overview may not match those presented in the statistical annex due to the sources used i.e. National Central Banks and European Central Bank.

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Chapter 1

The wider economy

The Euro Area projections presented in this chapter have been compiled from the EBF Spring 2019 Economic Outlook, a bi-annual report prepared by the European Banking Federation's Chief Economists' Group. European Commission data otherwise.

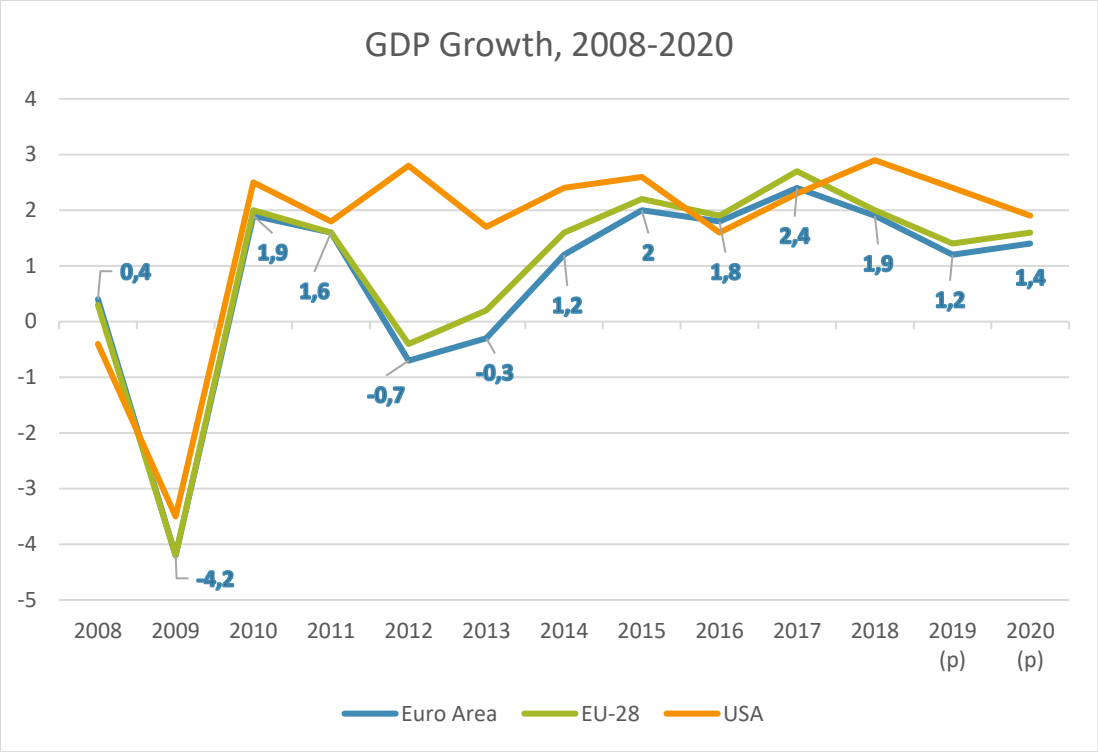
THE EURO AREA ECONOMY WILL CONTINUE TO EXPAND, ALBEIT CLOSE TO POTENTIAL FOR THE TIME BEING

The slowdown in the pace of the economic growth within the 19-country bloc, begun in Summer 2018, will continue in 2019 largely due to weaker global economic conditions arising from multiple global challenges and uncertainties. A soft industrial sector performance in Europe and mixed economic activity by the largest Euro area economies have also influenced the growth pace.

Trade tensions, contained until last year, have started to take a toll on European export growth. If the US and China do not strike a deal, the situation for European exports may further deteriorate as this will likely lead to a slowdown in China's economic growth which is a key market for EU exports. Europe's export-oriented economy would also be severely hit if EU-US trade frictions materialise and US tariffs are imposed, for example, on EU automotive exports.

Stabilising impulses come from the strength of the domestic demand, benefitting from a stable and strong service sector. Private consumption remains the major growth driver benefiting from a continued strong labour market performance, higher real wage growth and supportive financing conditions.

Looking forward, a plausible slight gradual recovery in GDP growth is expected to begin in the second half of 2019, and further into 2020, supported mainly by a revitalisation of global trade, economic growth in China following policy stimulation, accommodative financial conditions and a rebound in economic activity in Europe, especially in Germany's manufacturing sector.

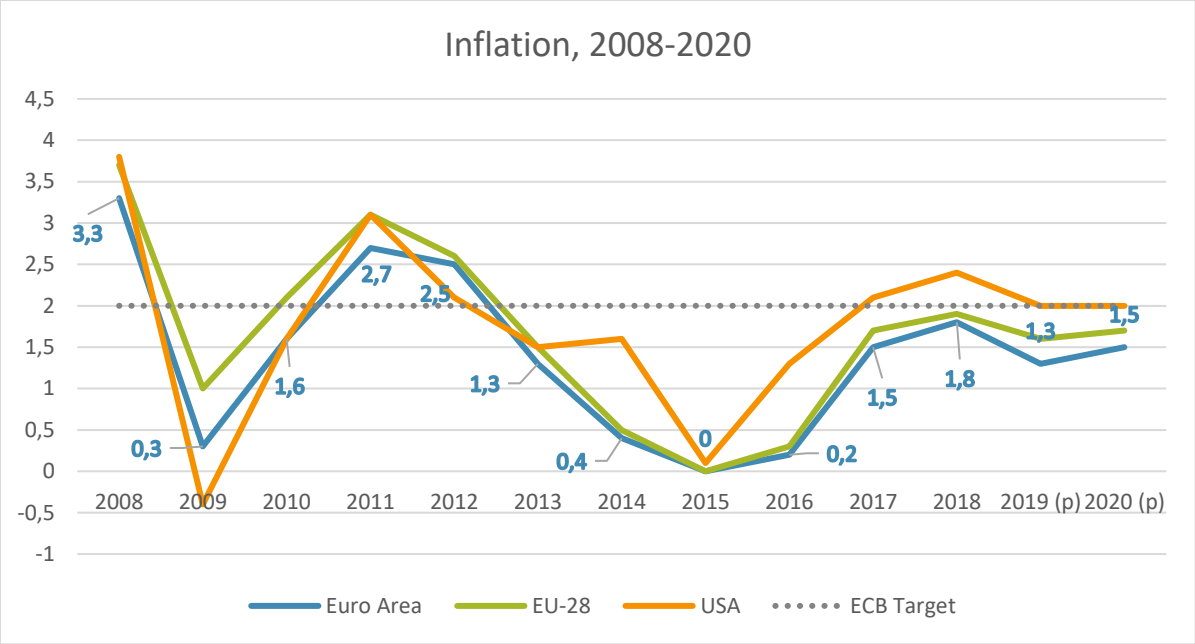


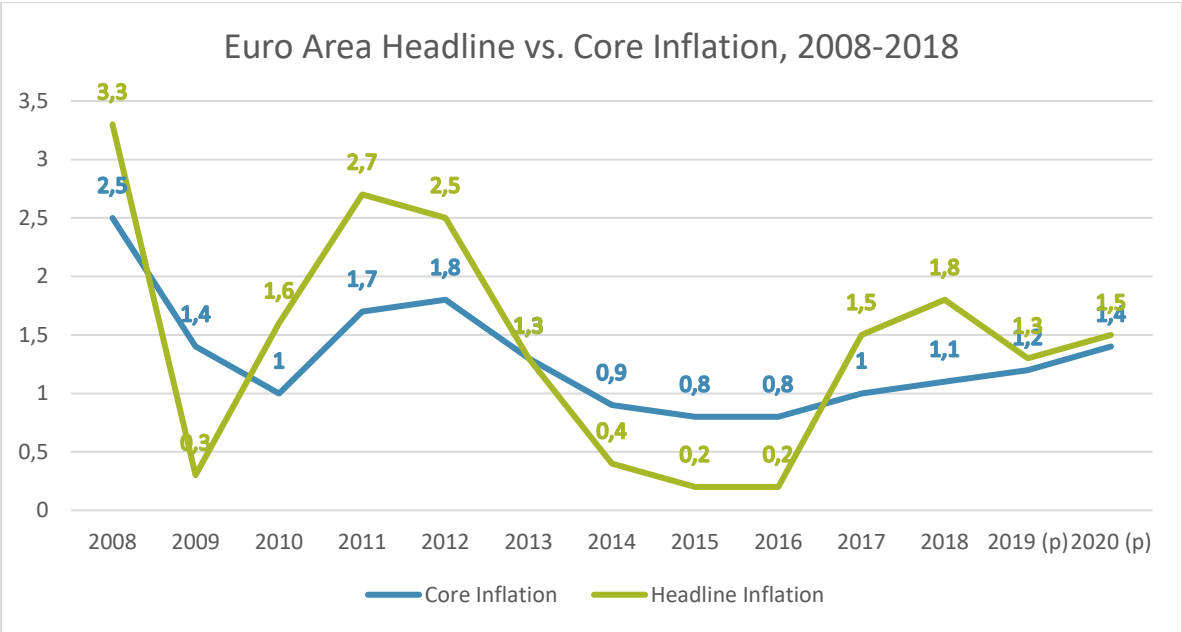
EUROPEAN BANKS SEE INFLATION SUBDUED

Annual headline inflation will be less dynamic in 2019 than in the preceding years mainly due to lower energy prices. Also, the high influence of a volatile oil market will keep inflation expectations low. Meanwhile, the monetary policy transmission mechanism seems to be challenged by structural forces.

Core inflation (excluding volatile items like commodities, energy and non-processed food) has remained moderate over the past years and will gradually increase in 2019 owing to expected strong domestic demand, tightening labour markets and a pick-up in wages. As a result, core inflation will gradually converge towards headline inflation.

A key factor of the inflation rate is the price of oil, which together with the price of energy, have substantially increased over the last year.





THE LABOUR MARKETS WILL CONTINUE TO IMPROVE OVER THE FORECAST HORIZON

Unemployment across Europe will continue dropping, reaching pre-crisis level. While the unemployment rate is expected to drop in almost all Euro area countries over the period forecast, figures will continue to mask uneven rates across the Euro area countries.

Job creation has remained on a more dynamic trend than workforce growth, but has slowed in the Eurozone's larger economies, slackening the rate of decline in the unemployment rate. The natural slowdown in job creation will however not be an obstacle to further falls in the unemployment rate.

Also, in several countries in the Euro area the job vacancy rate is relatively high. In this context, the lack of adequate labour supply could weigh on the potential and real growth of the economy.

The Chief Economists' Group of the European Banking Federation, in its Spring 2019 Outlook of the Euro Area Economies in 2019-2020, argues that the current economic outlook remains surrounded by a number of upside and downside risks with the risks to the growth outlook tilted to the downside.

Risks to the baseline scenario

- **UPSIDE RISKS**

+ US economy to continue expanding, albeit at a lower pace together with signs of a stabilisation and recovery in China's growth offsetting uncertainties in emerging countries.
+ Global economy gaining moderate momentum in 2020. Also, provided that international trade dispute does not intensify further, global trade will pick up again supporting the export economies in the Euro area.
+ Although a no-deal exit remains probable, Brexit negotiation extension could help bring an outcome that is economically acceptable.
+ A rebound in Germany's performance in the course of 2019 with, in particular, possible recovery of industrial production, mainly in the automobile sector.
+ Fiscal policy in the Euro area is becoming more expansionary.

- **DOWNSIDE RISKS**

– Worsened trade outlook with rising trade tensions between the US and China triggering a trade battle that would harm global economy. The Euro area economy, that is relatively highly exposed to external trade, would be severely hit if EU-US trade frictions materialise and US tariffs are imposed on, for example, EU automotive exports.
– Upward pressure on oil prices coming mainly from an escalation of geopolitical risk, in particular in Iran and Venezuela.
– High debt levels and weak growth in Italy, Euro area's third biggest economy.
– Brexit and the uncertainty around the final outcome remains a major concern.
– Weak manufacturing sentiment spreading to the broader economy.
– Political uncertainty at a broad European level with Eurosceptics gaining attraction in some countries ahead of European elections.

The risks to the growth outlook are tilted to the downside, according to the Chief Economists' Group

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EBF 2019 Spring Outlook in Euro Area Economy 2019 - 2020

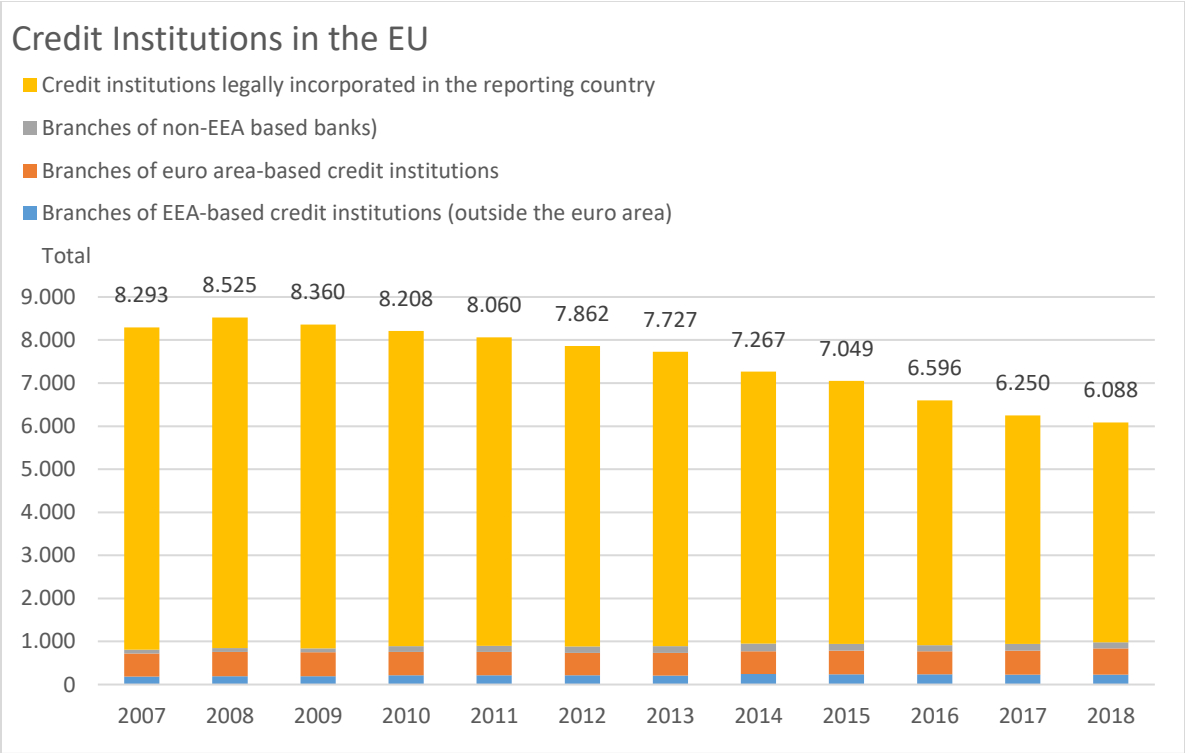
Waiting and looking forward to 2020

Chapter 2

Structure and economic contribution of the banking sector

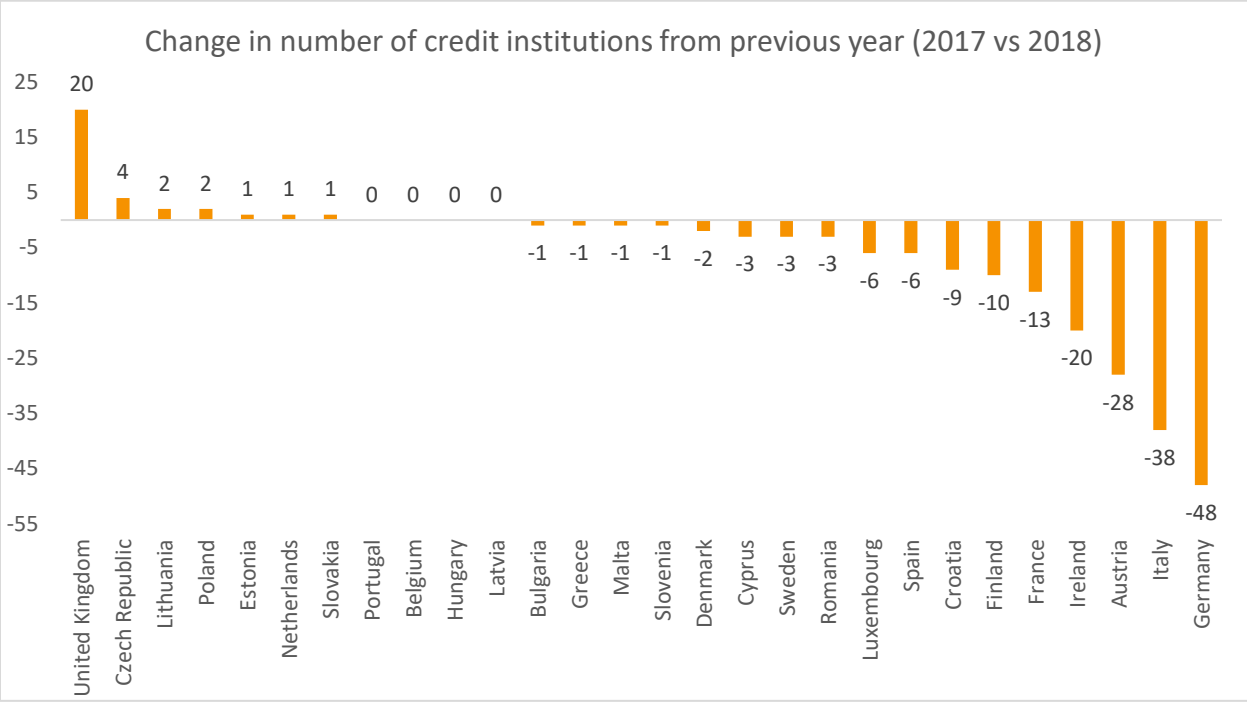
Number of credit institutions

The downward trend in the number of EU-28 credit institutions, which started in 2009, continued in 2018, albeit at a slower pace, with the number falling to 6,088. This marked a decline of 2.6% compared to the previous year and a reduction of 2,437 (-29%), in total, since contraction started, meaning that one out of four credit institutions has disappeared since the financial crisis. Most of the consolidation has occurred within credit institutions, legally incorporated into the reporting country, where the stock has fallen by 33% since 2008. Consolidation in the banking sector continues helping to reduce overcapacity and aiming for enhancing profitability.



The countries that experienced the largest contraction in absolute terms in 2018 were Germany (-48 units), Italy (-38), Austria (-28) and Ireland (-20), according to the ECB., Estonia (+1 unit), Netherlands (+1), Slovakia (+1), Poland (+2), Czech Republic (+4) and the UK (+20) were the countries where the number of credit

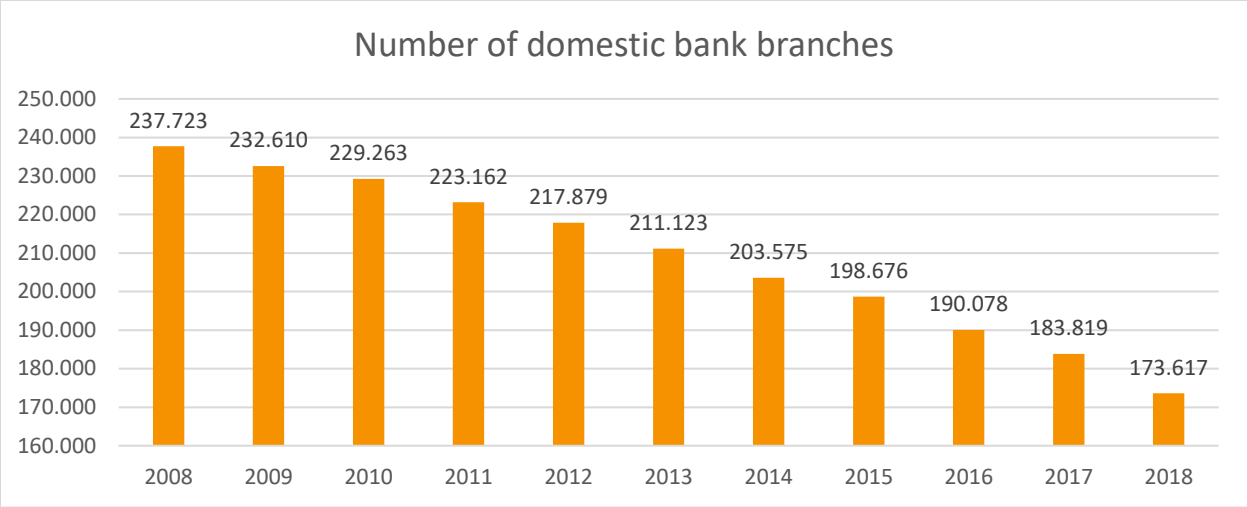
institutions increased. The number of credit institutions in the EFTA countries remained unchanged at 410 in 2018.



Branches and subsidiaries

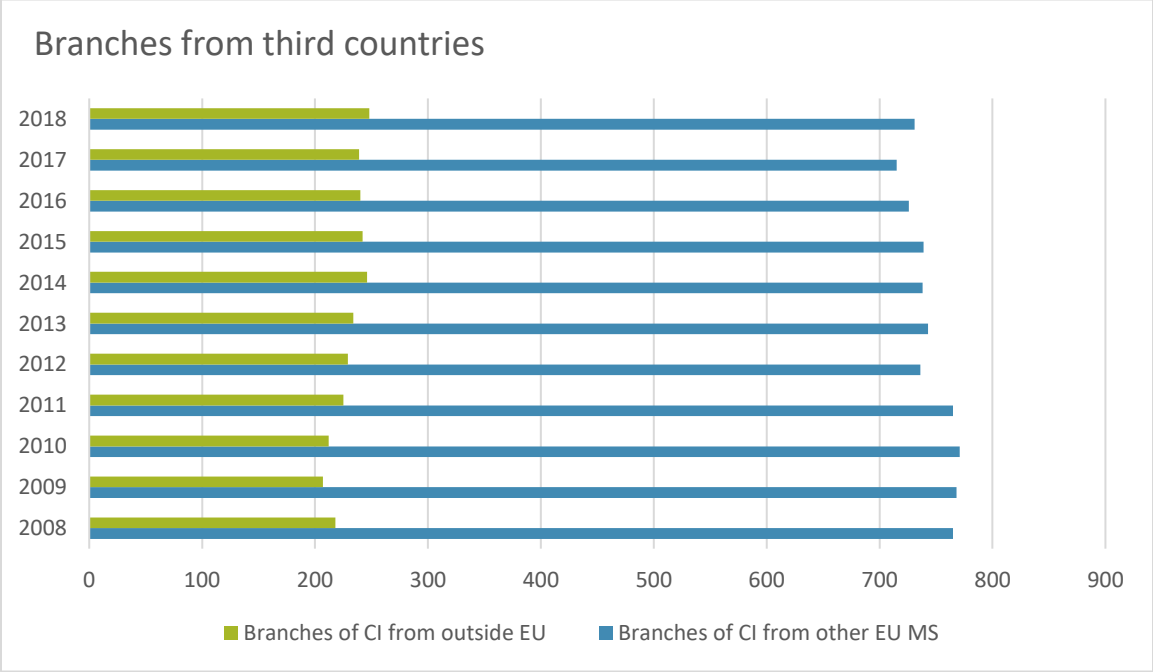
The rationalisation taking place in the EU banking sector also involves bank branches as the number of branches continues to shrink, falling to about 174,000 by the end of 2018. Compared to the previous year, branches in the EU-28 decreased by 5.6%, or about 10,000 branches, the largest drop since the financial crisis. The number of branches has fallen by 27% since 2008, or by almost 65,000. This trend continues reflecting the increasing use of digital banking by consumers as more than half of EU individuals, 54%, used internet banking in 2018, up from 51% in 2017, and 25% in 2007, when the data series began.

The countries that experienced the largest contraction in absolute terms in 2018 were Germany (-2,185 units), Italy (-1,920) and Spain (-1,314). Only Bulgaria added branches (+82 units).

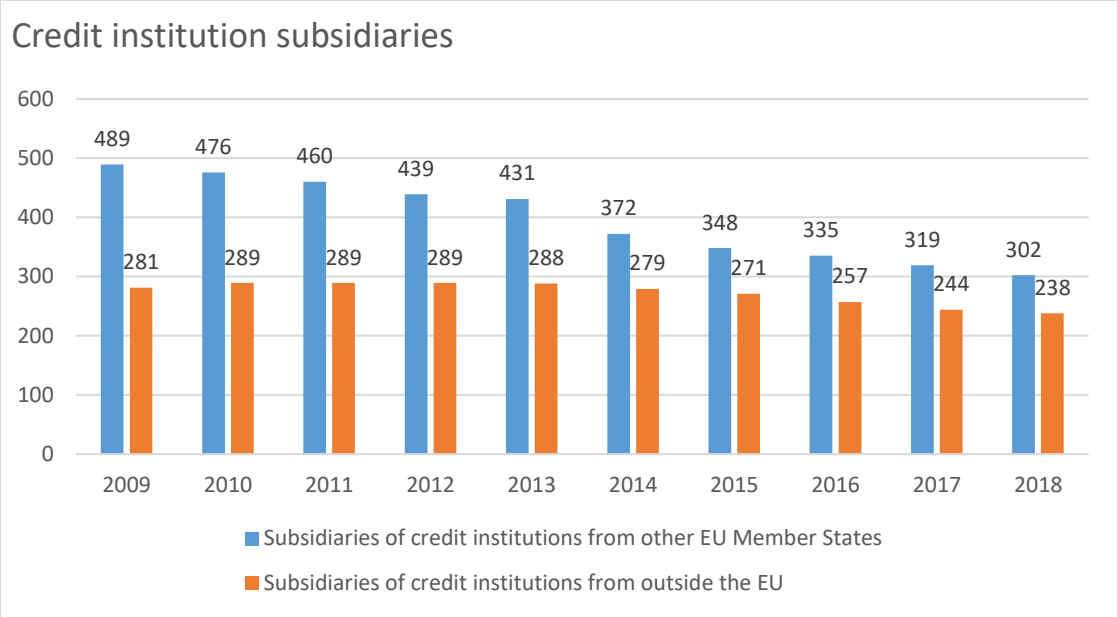


UK data not available since 2014. For calculation matters latest available data has been used

For a number of years, a trend in the establishment of branches has been dominating that of subsidiaries in the EU. At a consolidated bank level, there were 979 foreign bank branches in the EU in 2018, of which 731 were from other EU Member States. The number of bank branches from third countries is relatively stable and shows only marginal growth. Germany is the country with the highest number of foreign branches from other EU Member States, having 92 branches, followed by Spain with 76. The UK is the country with the highest number, 95, of third country branches, more than three times as many as the 29 non-EU countries branches present in Italy.

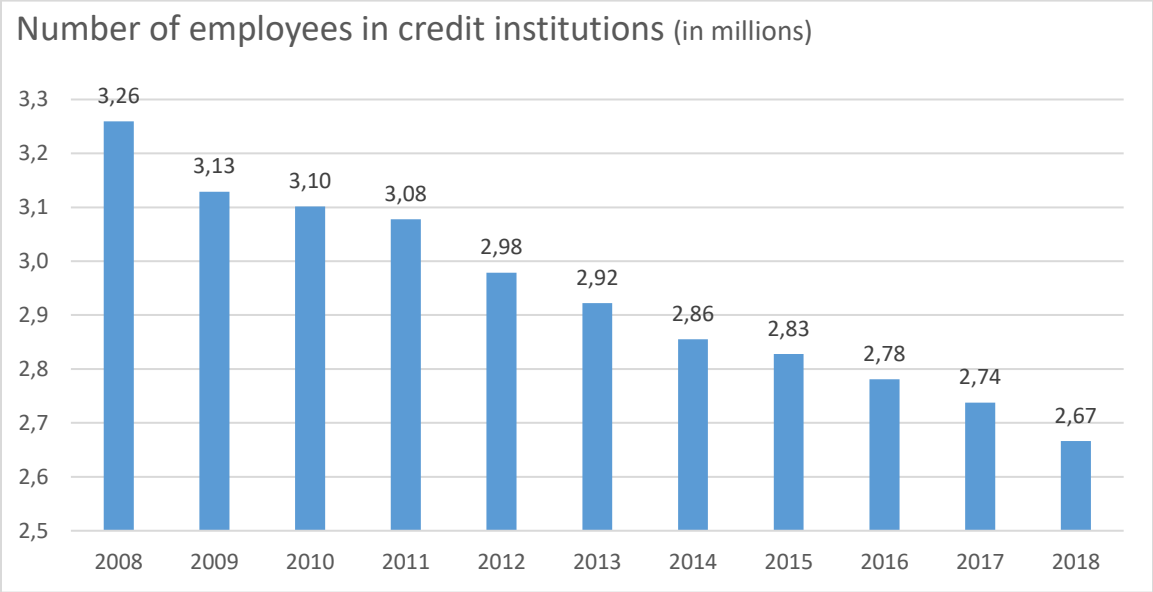


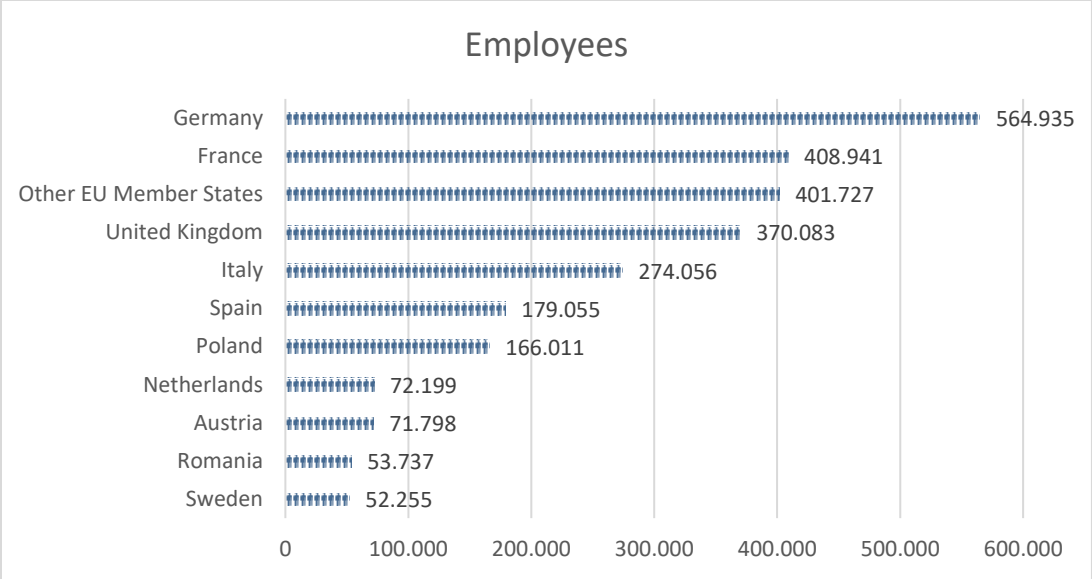
The overall number of subsidiaries continued declining for the eleventh consecutive year, falling by 4.4% to 540, the lowest level since 1997. The number of subsidiaries of credit institutions from other EU countries fell by 17 in 2018. The number of non-EU credit institutions' subsidiaries dropped to 238, down from 289 in 2010, the highest number since 2007.



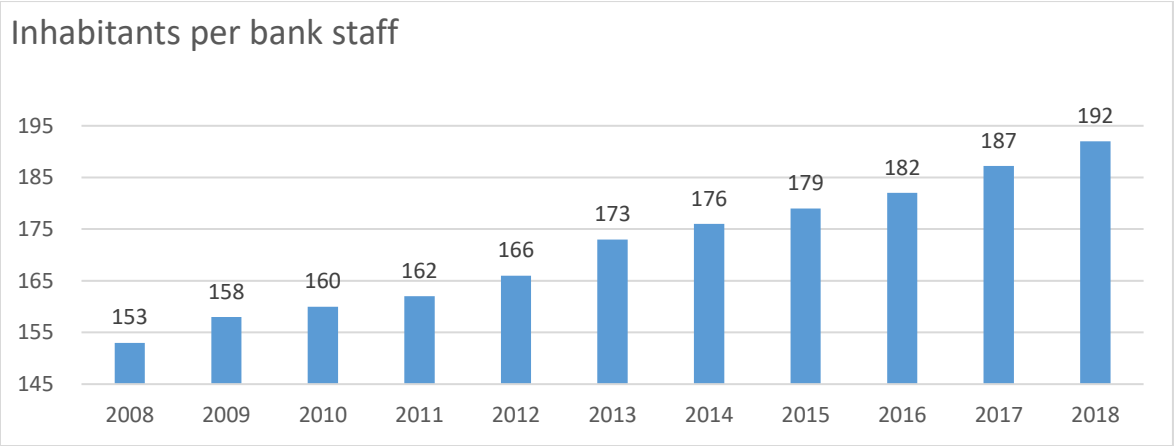
Bank staff

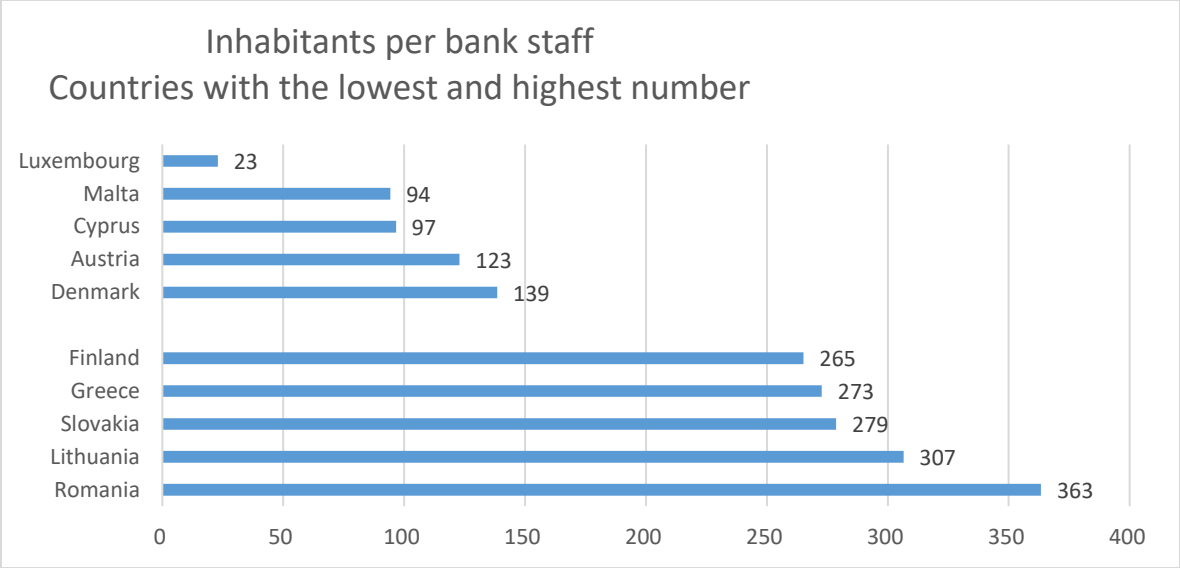
Banks have a large stake in society as important job creators, as they employed about 2.7 million people in the European Union by end-2018. This is about 72,000 fewer than in 2017 making a new lowest level since the ECB's data series began in 1997. Not surprisingly, the countries with the largest number of jobs in this sector are the countries with the largest financial centres in Europe: Germany, France and United Kingdom; followed by Italy and Spain. These five EU economies employ some 67% of the total EU-28 staff employed. Including EFTA countries, the number of staff employed in the banking sector was about 2.8 million.



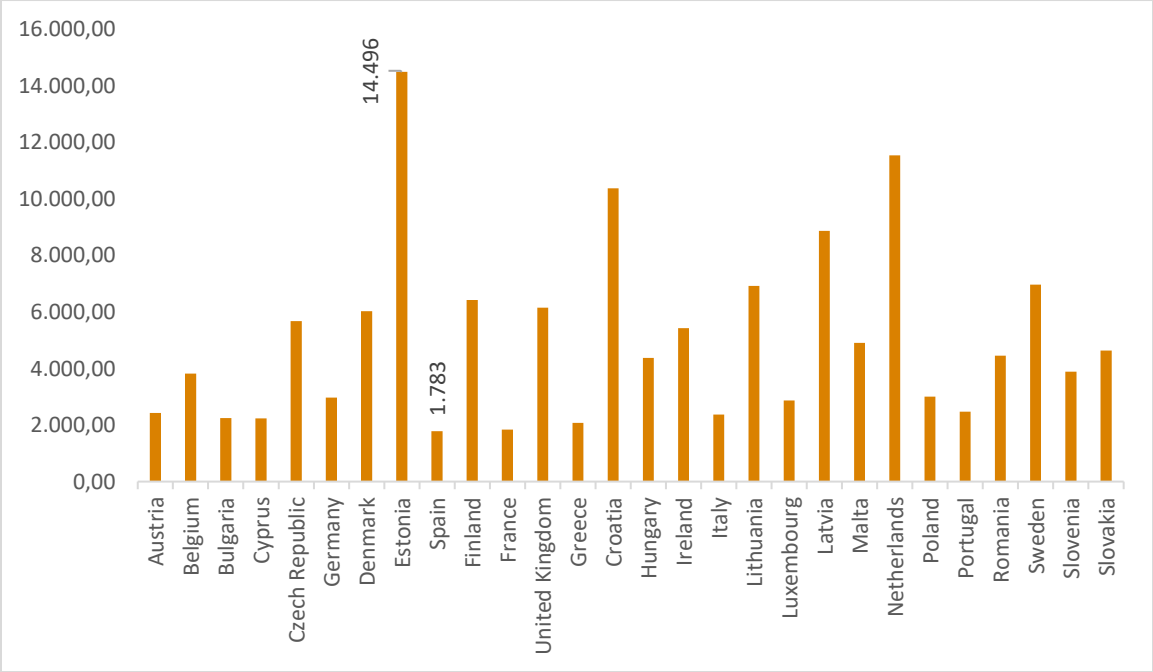


Also reflecting a contraction in the banking sector, the average number of inhabitants per bank staff member in the EU Member States rose from 187 in 2017 to 192 in 2018. The average number has risen each year since 2008, when it was 153. Romania is the country with the highest number, 363 inhabitants per bank staff member, while Luxembourg has the lowest number with 23 inhabitants per bank staff.

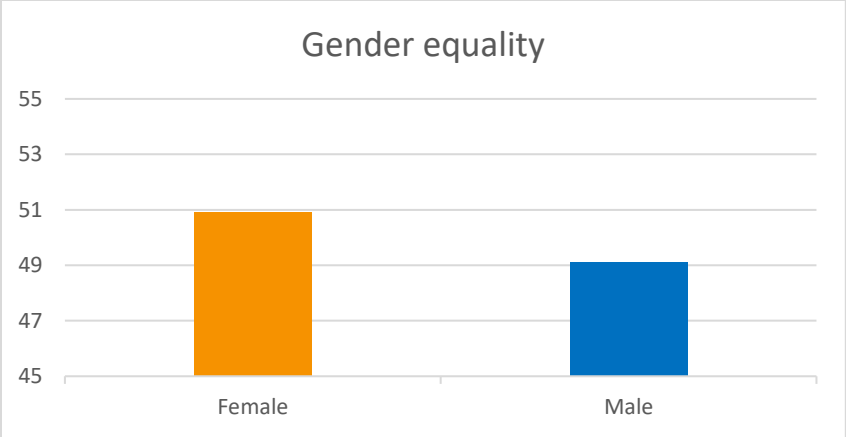




Regarding the number of inhabitants per bank branch. At one extreme is Spain, where each branch welcomes an average of 1,783 citizens, while at the other is Estonia where a branch provides services to an average of 14,496 inhabitants. The average number of inhabitants per bank branch in the EU-28 is almost 5,000.



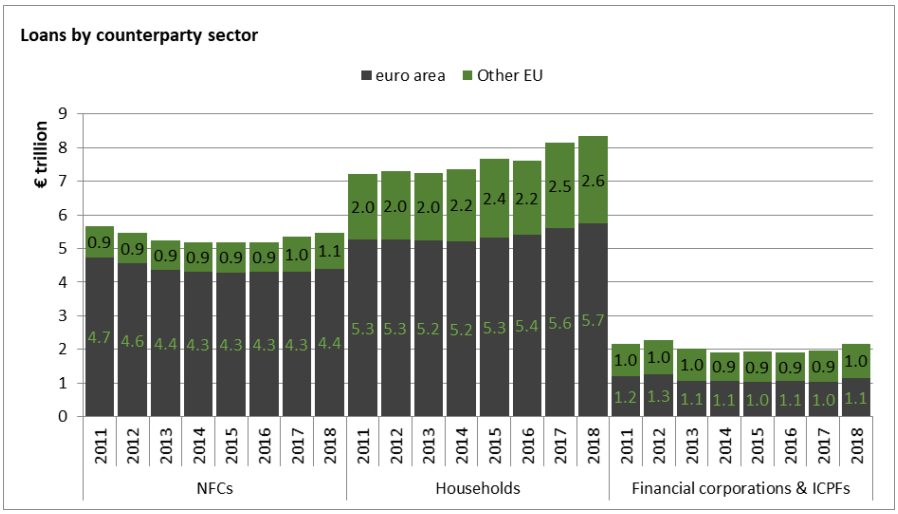
Banks continue promoting gender equality initiatives aiming to reach gender balance at all levels. Female employees in the top 15 EU banks counted for more than half of the total workforce in 2018. Along with sectors, part of the initiatives is to encourage board seats for female executives; the average (12.9%) in 2018 was still below desired quotas.



Economic contribution

Banking and related financial services activities make a significant contribution to the EU's economy. Despite the drop-in bank employment in recent years, about one in every 100 jobs in the EU was a banking job in 2017. In the past decade, between 3% and 4% of the value of compensation of employees and gross value added to the EU economy has come from financial services (excluding insurance and pension activities).

However, in addition to the direct contribution of the banking sector to the economy, banks play a fundamental role in the organisation of our economies.



One of the most fundamental roles of banks is to provide financial intermediation, which means that banks connect borrowers with savers. By raising deposits from households and companies, banks can use those funds to turn them into credit and thereby facilitate new investments, which contribute to further economic growth. As the above chart illustrates, the vast majority of bank loans are provided to non-financial corporations (NFCs) and households. Those figures demonstrate the strong business focus of banks on providing credit to the real economy, namely NFCs.

The strong dependence of European economies on banks is further evident in the financing mix of non-financial corporations. For example, in 2018, SMEs received 47% of their financing from bank loans and only 12% from equity (the latter being raised on the capital markets as identified in the SAFE report.). The importance of bank financing is a specific characteristic of the bank-based European economy and can be compared with economies that are more market-based. Ultimately, this distinction of market-based and bank-based economies means that these economies are affected differently by diverse developments. For example, regulation that complicates the access to credit will have a different impact in the EU than the US and vice versa.

Chapter 3

Supporting customers

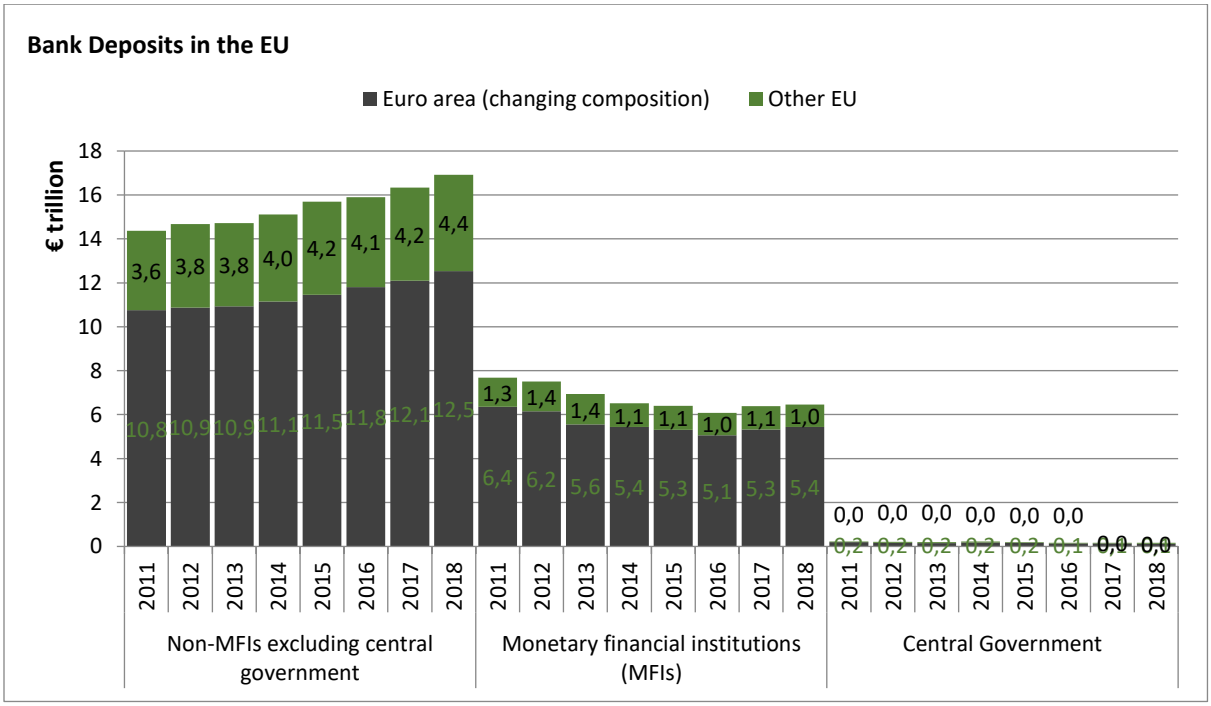
General trends

The core banking activities of raising deposits from and providing credit to customers are crucial to Europe's banks. Private sector deposits and loans grew in 2018, particularly for households and non-financial corporations.

Deposits

Domestic or euro area deposit liabilities in the EU rose by 32.8% to €23.5 trillion, excluding euro area deposits of non-euro area monetary financial institutions (MFIs). France accounted for more than half of the increase, with deposits up €346 billion. Monetary financial institution deposits in France increased by almost €185 billion. Similarly, deposits of non-MFIs excluding central government rose by €162 billion in France, by €109 billion in Germany and by €113 billion in the United Kingdom.

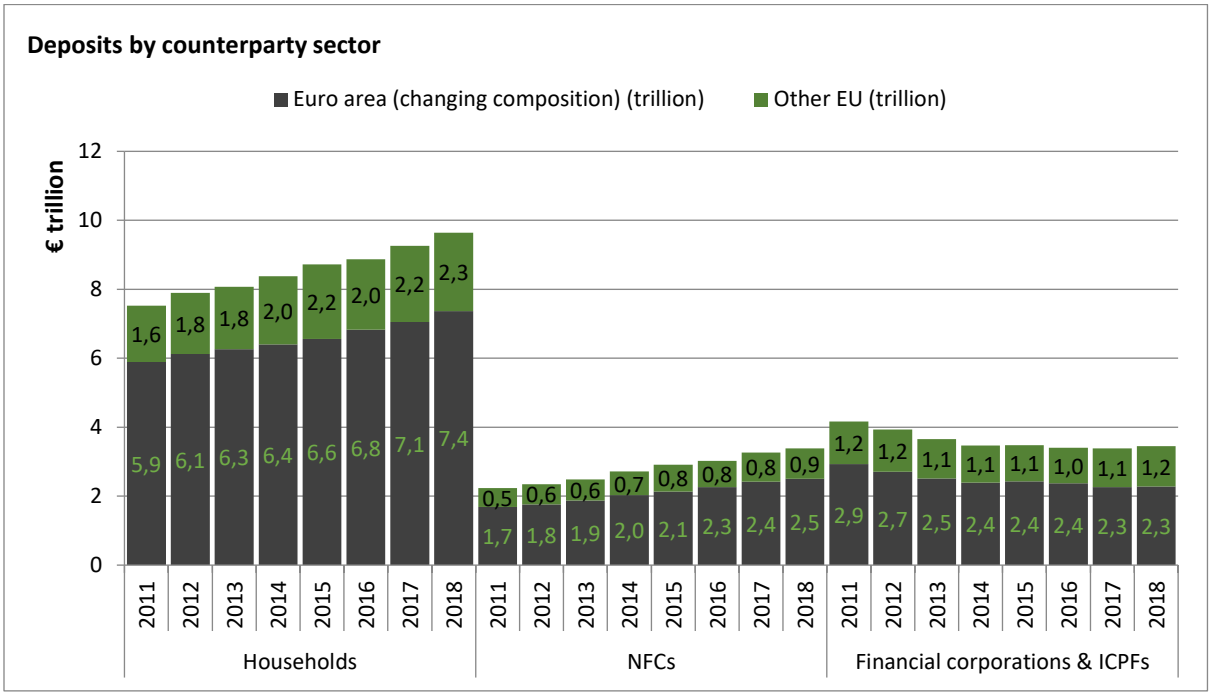
Deposits from other MFIs rose by 2.2% in the euro area in 2018 but fell by 5.5% in the rest of the EU, mainly driven by a drop in the United Kingdom.



Total deposits from non-MFIs, excluding central governments, grew by 3.6% in 2018 to €16.9 billion in the EU at the end of 2018, with €12.1 billion in deposits in the euro area.

The growth continues to be driven by an increase in deposits from households (including non-profit institutions serving households), which rose by 4.2% year-on-year to €9.6 trillion and non-financial corporations (NFCs), up by 3.6% to €3.4 trillion.

Germany accounted for about one third of the €314 billion increase in euro area household deposits in 2018. France contributed about one fifth.

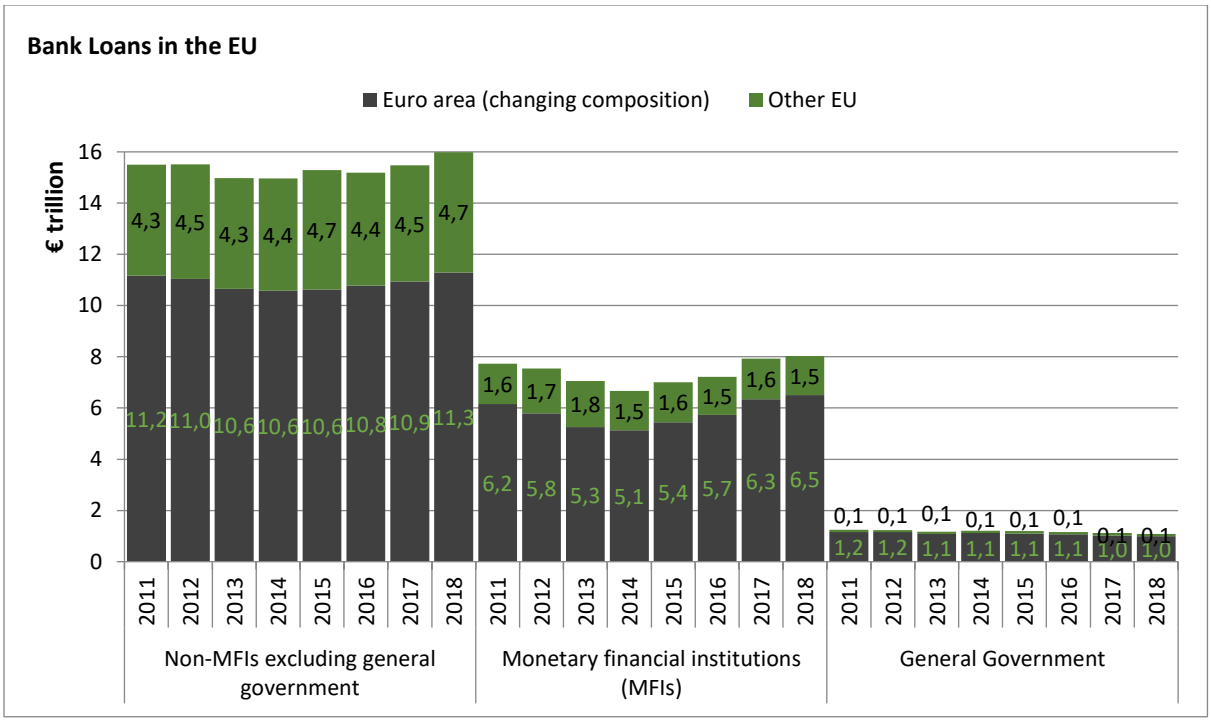


The ECB reported continued strong growth in overnight deposits in the euro area with more than €7.1 trillion in overnight deposits from non-MFIs, excluding central government vis-à-vis MFIs and central government at the end of 2018, some 6.8% more than at the end of 2017. This was the 51st consecutive month in which the annual growth rate in overnight deposits had exceeded 6%.

Loans

The total value of loans outstanding from EU MFIs increased by 2.5% in 2018 to more than €25.1 trillion. The increase mainly came from growth in loans to non-MFIs, excluding general government, which rose by 3.4% year-on-year to almost more than €15.5 trillion.

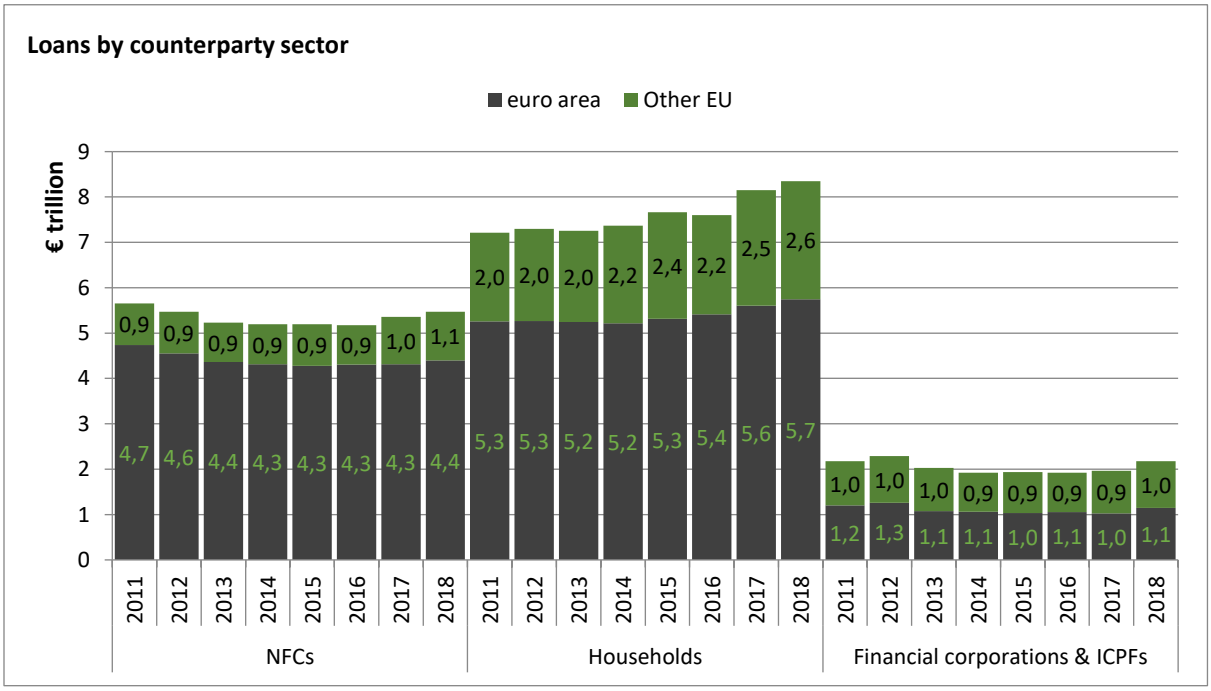
As with deposits, France accounted for four fifths of the €602 billion increase in loans outstanding in the EU.



Loans to EU households rose by 2.5% in 2018 to €8.3 trillion, rising slightly faster in the euro area.

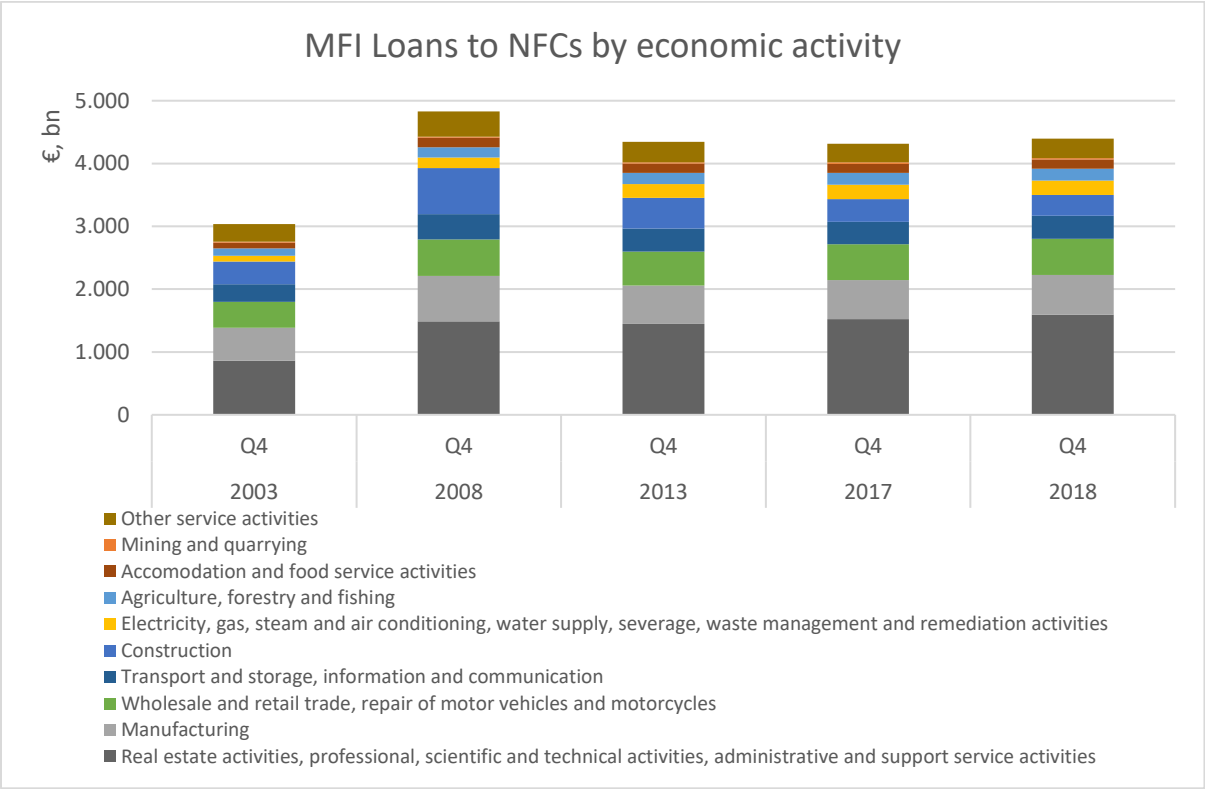
Loans to households in the euro area grew for the fourth successive year, adding almost €540 billion on loans outstanding since 2015.

NFC loans outstanding in the EU rose by 3.8% in 2018 to almost €5.5 trillion, the highest level since 2012.



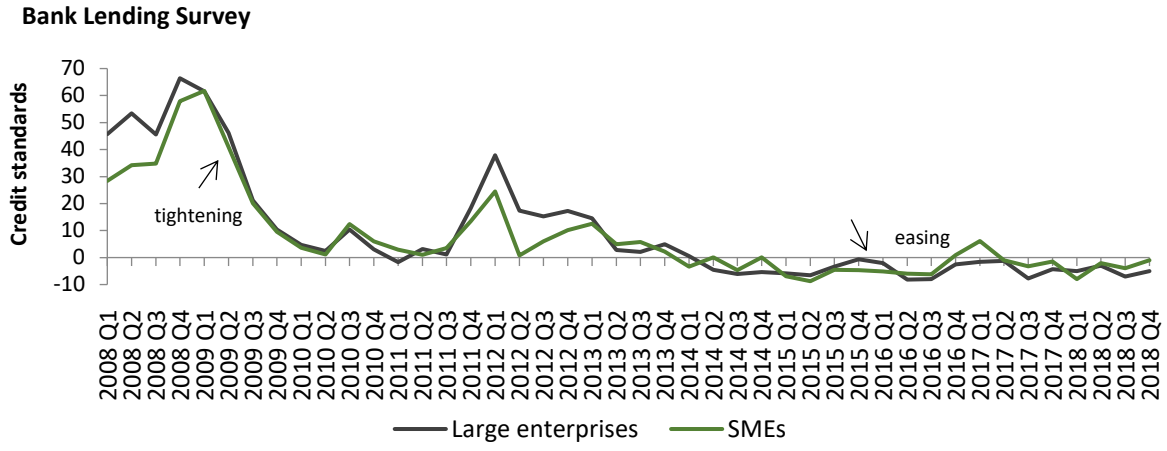
Loans adjusted for loan sales, securitisation and notional cash pooling continued to grow in the euro area in 2018. Annual growth rates on adjusted loans to the private sector have been positive since the first half of 2015, with the annual growth rate of adjusted loans to households and NFCs at 3.2% and 3.9%, respectively, in December 2018.

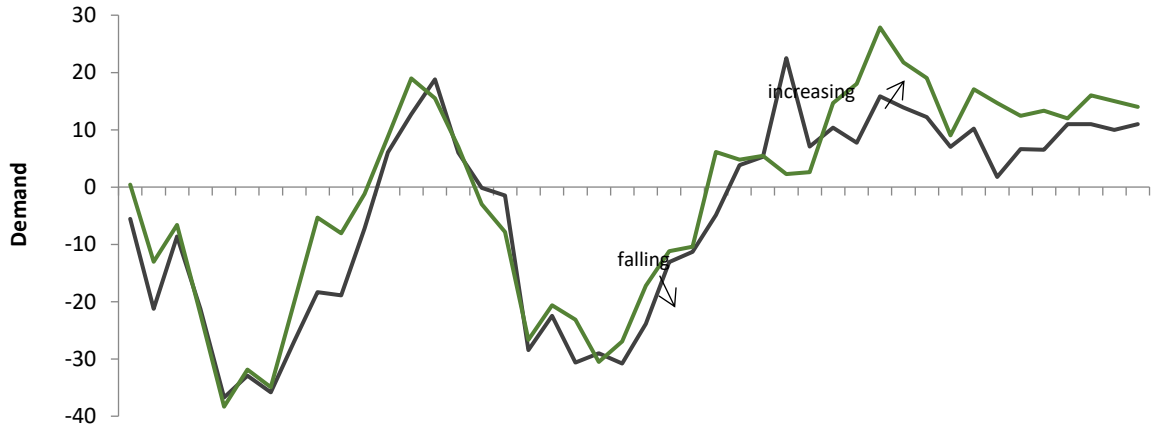
Real estate activities, professional, scientific and technical activities and administrative and support service activities accounted for more than one third (36.2%) of loans outstanding at the end of 2018, and up from 30.8% in Q4 2008. Manufacturing and the wholesale and retail trades accounted for 14.4% and 13.1% respectively.



Lending standards, i.e. banks' internal guidelines or loan approval criteria, continued to ease in the euro area throughout 2018 for loans to both SMEs and large enterprises, reflecting the general trend evident since 2014.

Bank Lending Survey





Net demand for new lending remained positive in 2018, with the net percentage of banks reporting an increase in SME loan demand, broadly stable since the start of 2017, and between 12% and 17%.

The Role of Banks: lending and payments

Banks act as facilitators between those who have money and those who need money, while also providing the systems for funds to flow between payers and payees.

The primary role of banks is to take in money from those with cash in hand and to lend money to borrowers. Banks then receive loan repayments which can be used in new lending to other borrowers.

The traditional view of this process has been that banks "create" money by providing some of the money on deposit in the form of loans to borrowers, which returns to the banking system as deposits. This money can then be lent again and again, resulting in a multiplier effect. More recently, money creation has focused on how lending creates bank deposits i.e. whenever a bank provides a loan to a customer, a deposit is created.

Banks cannot lend freely without limits. They have to be able to lend profitably in a competitive market, while also managing liquidity risks (i.e. they have sufficient liquid assets to repay depositors or investors when required) and credit risks (some borrowers may not repay their loans). These lending activities are regulated and safeguarded by global/international standards and EU regulations.

Just as money can be created, it can also be destroyed. For example, in the case of a mortgage being used to purchase a second-hand property, the purchaser could use the proceeds from the sale to pay an existing mortgage, effectively bringing the amount of money created back to zero.

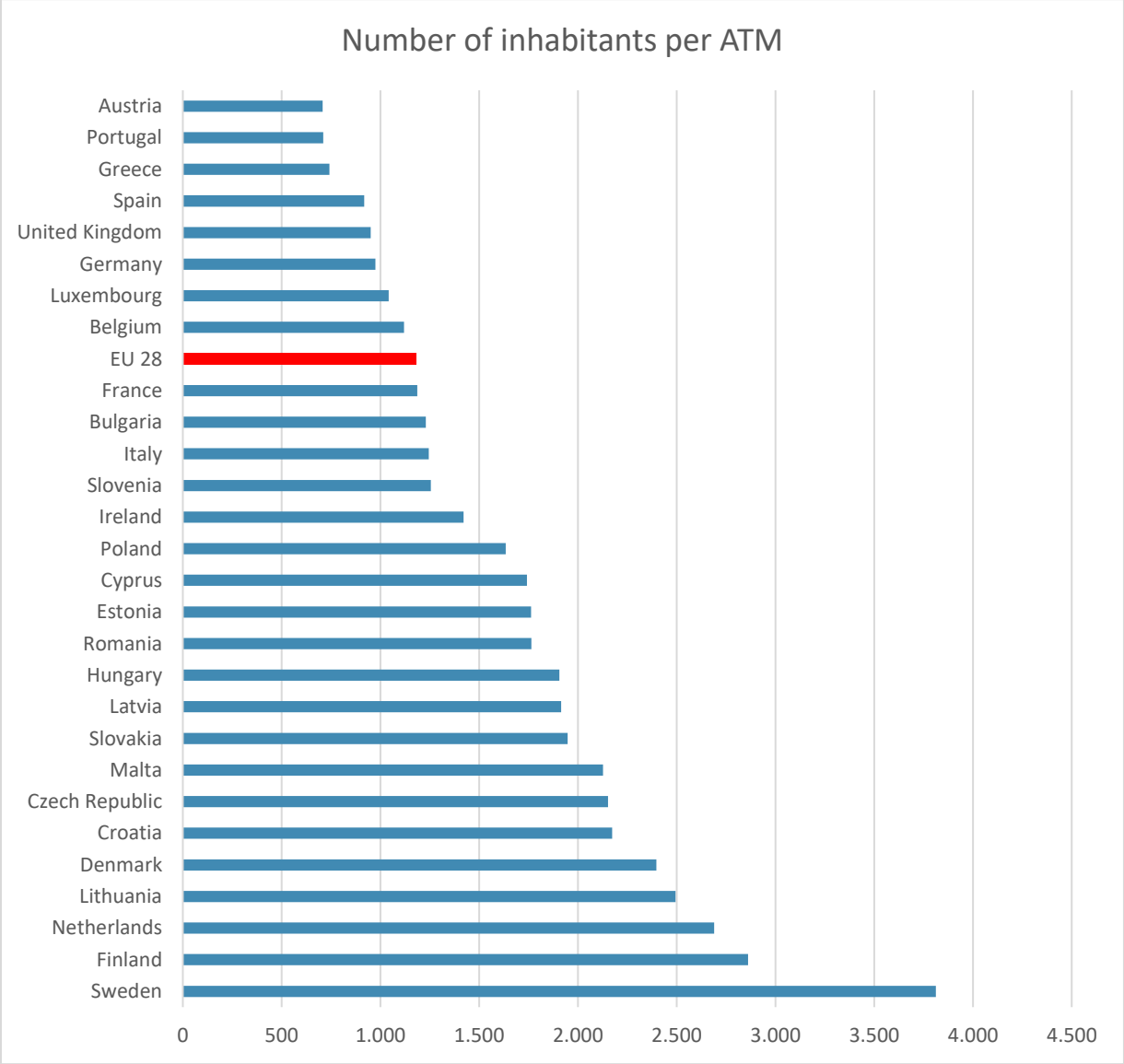
Banks are also key players in national and international payment systems. Almost 90 billion cashless payments were made by non-MFIs in the EU area in 2018. Slightly less than half (42 billion) of those were card payments, while about a quarter were credit transfers (21 billion) or direct debits (21 billion).

The popularity on online and mobile banking continues to grow with some 54% of individuals (64% of those who used the internet in the last three months) used Internet banking in the EU in 2018, up from 47% in 2008.

The Single European Payments Area (SEPA) aims to harmonise and integrate payment markets across Europe, with one set of euro payment instruments: credit transfers, direct debits and payment card, common standards and practices and a harmonised legal basis. SEPA covers more than 520 million people in the 28 EU Member States and six non-EU countries (Iceland, Liechtenstein, Monaco, Norway, San Marino and Switzerland).

The Number of ATMs in the European Union totalled in 2018 about 432,000, which is an average of 1,182 inhabitants per ATM, down from 1,112 in 2014 when Europe reached the highest number of ATM with 455,711.

As far as convenience and accessibility of banking services are concerned, Austria and Portugal lead in terms of the number of inhabitants per ATM, the parameter being 708 and 711 respectively. At the same time the least number of inhabitants per ATM was registered in Sweden, Finland and the Netherlands. In each of these countries there are between 3,812 and 2,689 inhabitants per device.



Chapter 4

Banking sector performance

Bank capital

European banks have continued building a solid capital position and strengthening their balance sheets. The recapitalisation effort that European banks have made following the 2008 financial crisis makes the European banking sector more resilient and robust. Capital has continued increasing, with the core equity Tier 1 ratio of EU banks on a fully loaded basis, which includes only capital of the highest quality, at 14.2% in June 2018, 40 basis points more than the previous year and more than double the same ratio in December 2011.

After reducing the original total capital shortfall by more than €500 billion from 2011 and reaching zero in June 2017, mainly by raising new capital and retaining earnings, banks in the European Union have maintained in 2018 the zero shortfall. Tier 1 and total capital also continue showing a positive trend, reaching 15.50% and 18.40% in June 2018 up from 6.80% and 8.10% respectively in 2011.

In 2018, all banks met, once more, the liquidity coverage ratio above the minimum. Furthermore, the shortfall of all categories of capital in 2018 remained at lowest levels. Also, the leverage and NSFR shortfalls continued to decrease, albeit at a slower pace, to €1.50 billion and €49.1 billion, respectively.

Total****	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	Jun-15	Jun-16	Jun-17	Jun-18
CET 1 Capital	5.3%	7.0%	7.8%	8.3%	9.0%	11.8%	12.8%	13.8%	14.2%
CET1 shortfall (€bn) at 4.5%	29	18	9	13	15	0	0	0	0
CET1 shortfall (€bn) at 7%**	277	225	130	96	65	1	1	0	0
Tier 1 Capital	6.8%	7.2%	8.1%	8.5%	9.2%	12.3%	13.4%	14.7%	15.5%
Total Capital	8.1%	8.3%	9.1%	9.7%	10.9%	14.7%	16.1%	17.4%	18.4%
Tier 1 Capital Shortfall (€bn)**	411	350	249	196	120	8	4	0	0
Total Capital Shortfall (€bn)**	544	479	383	304	190	18	6	0	0
Leverage Ratio (3%)	2.8%	3.0%	3.1%	3.0%	3.1%	4.4%	4.7%	5.0%	5.0%
Leverage shortfall (€bn)	N/A	N/A	N/A	133	64	9	3	2	1.50
LCR	71%	76%	N/A	113%	110%	128%	135%	143%	146%*
LCR Shortfall (€bn)***	1200	1200	N/A	225	262	33	3	0	22.5*
NSFR	89%	93%	95%	96%	N/A	105%	108%	112%	113%
NSFR Shortfall (€bn)***	1,800	1,400	1,200	959	N/A	341	159	51	49.1

EBF calculations with data from EBA's Basel III report monitoring exercise

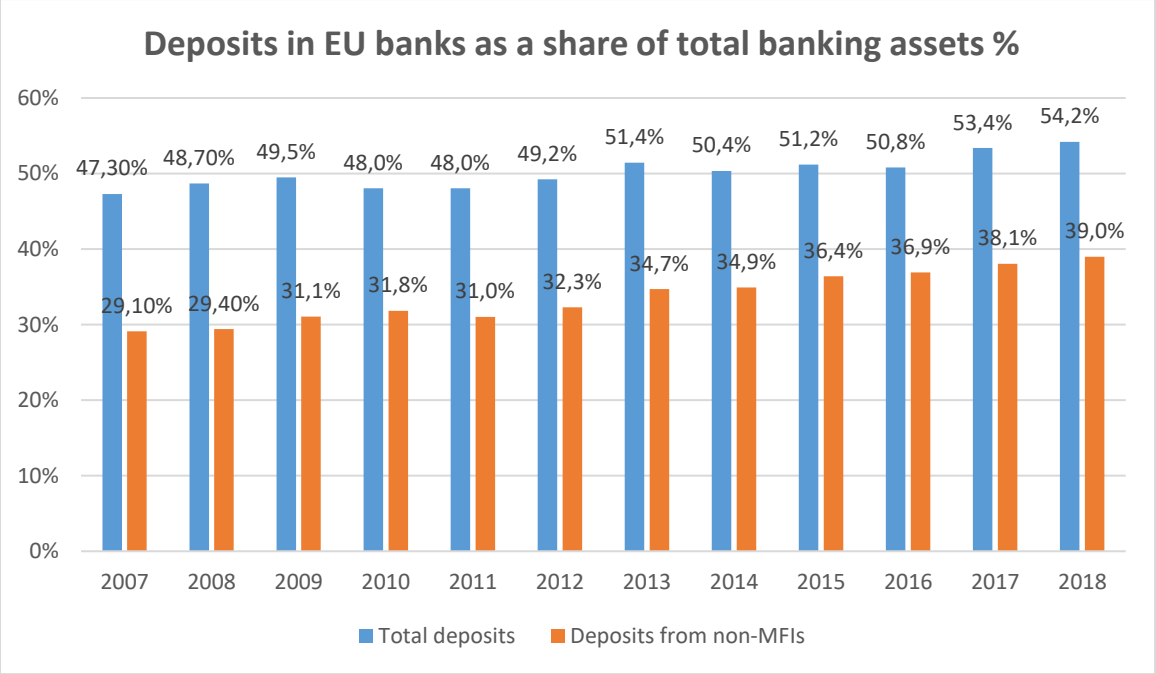
*LCR figures from EBA report on liquidity measures **Including G-SIB surcharge ***Overall shortfall group 1 and group 2 **** Assumption of weights: 80% G1; 20% G2

Bank funding

The share of deposit liabilities over total assets increased in 2018 from 53.4% to 54.2%, in line with the rising trend since 2007 (47.3%) that reveals the shift towards greater reliance on deposits as a source of funding.

The rise in the share of non-banks' deposits to total assets has continued, rising from 38.1% in 2017 to 39.0% in 2018.

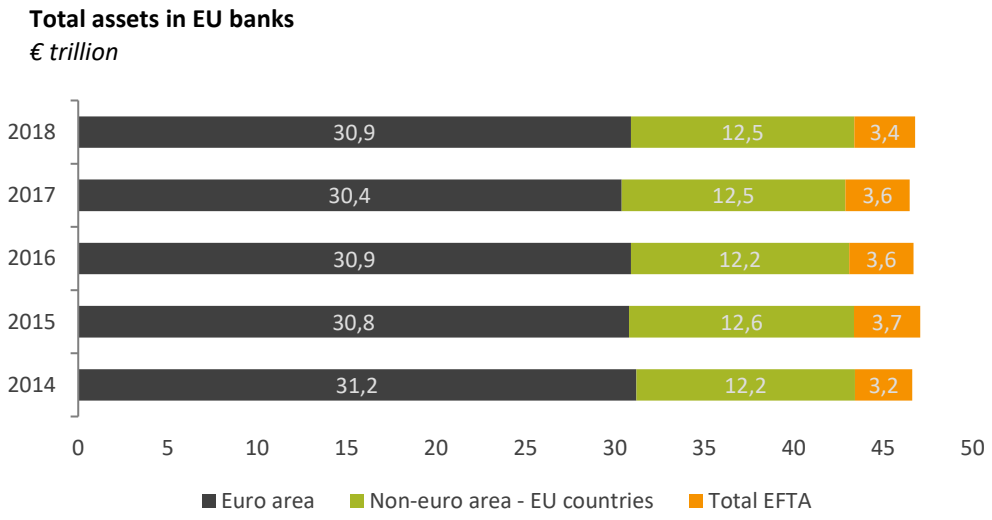
The country breakdown for total deposits shows that domestic deposits were equivalent to less than half of the assets in Denmark, Ireland, Greece, Sweden, Finland, France, UK, Luxembourg, Italy, Malta and the Netherlands. The figures continue to reflect, in part, different banking models, for example the well-developed covered bond markets in Scandinavia. Meanwhile, countries with the largest shares of deposits financing the banking sector's assets were Bulgaria, Croatia, Estonia, Slovenia, Slovakia, Lithuania, Poland and Romania all of which had deposits equivalent to 60% or more of assets.



Assets

The amount of total assets held by EU banks expanded in 2018 after few years of consecutive contraction. This time enlarged by approximately €500 billion from the previous year amounting to €43.35 trillion (€30.9 billion in euro area and €12.5 billion in non-euro area). The expansion came basically from gain in the total assets in the euro area countries (1.6%).

Considering the country breakdown, the country with the strongest boost in absolute terms was Finland with €176 billion (39.1%). Among the four largest European countries only France registered a substantial positive result in their stock of assets which increased by 4.2%, Italy and Spain showed a reduction of 1.3% and 2.9% respectively. The countries with the most significant reductions in their stocks of assets were Cyprus (-13.1%) and Latvia (-19.5%).



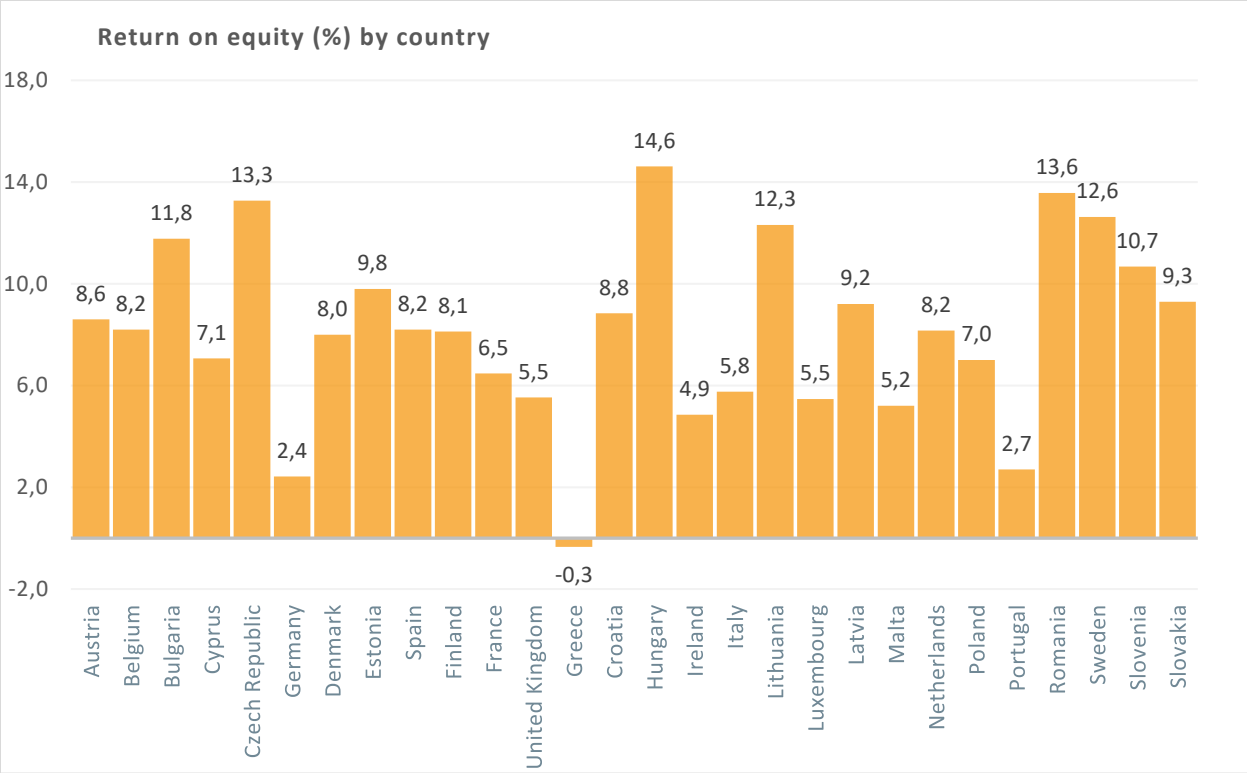
Bank profitability

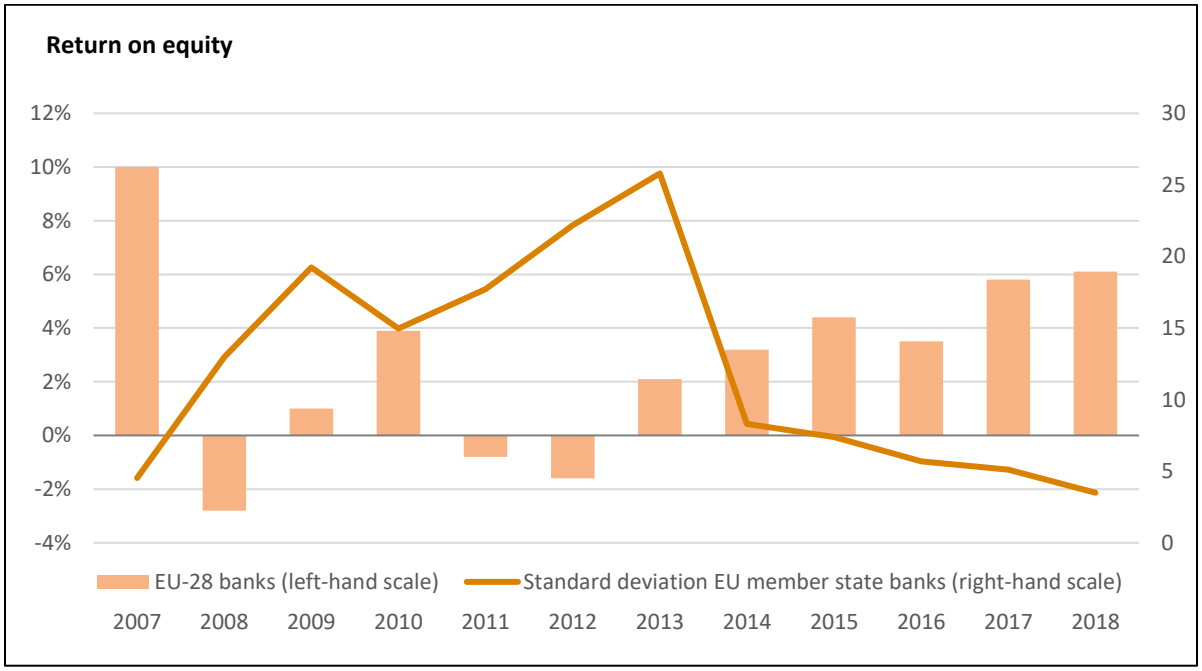
With the ECB maintaining its ultra-low interest rates, profitability remains a key challenge facing European banks. The return on equity (ROE), a key indicator to assess the bank sector's attractiveness for investors has been slowly recovering. The ROE of European banks was 6.1% in 2018 for EU 28, up from 5.8% in 2017. While this is still far from the 10.6% registered in the burst of the financial crisis, it is the highest since 2007.

Reflecting on the national breakdown, all countries but Greece have a positive ROE with seven countries having a double-digit ROE led by Hungary (14.6%), Romania (13.6%) and Czech Republic (13.3%). Only Greece registered a negative result, compared to three countries in 2017, though only by a very small margin -0.3%. The difference between the highest (Hungary) and lowest (Greece) ROE was 14 percentage points in 2018, very far from the 101.6 recorded in 2013 (11.4% in Czech Republic and -90.2% in Slovenia).

The ROE across EU countries diverged after 2007, signaling growing fragmentation, particularly across the Euro area. After reaching a peak in 2013 (25.8), the dispersion around the average ROE has substantially decreased falling to 3.5 in 2018, for first time, less than the 4.5 seen in 2007 before deviation started.

In the largest EU economies, the ROE remained positive with the Spain, France and UK recording the largest improvements.


Return on equity (%) by country
18,0
14,0
10,0
6,0
2,0
-2,0
8,6
8,2
11,8
7,1
13,3
2,4
8,0
9,8
8,2
8,1
6,5
5,5
-0,3
8,8
14,6
4,9
5,8
12,3
5,5
9,2
5,2
8,2
7,0
2,7
13,6
12,6
10,7
9,3
Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Germany
Denmark
Estonia
Spain
Finland
France
United Kingdom
Greece
Croatia
Hungary
Ireland
Italy
Lithuania
Luxembourg
Latvia
Malta
Netherlands
Poland
Portugal
Romania
Sweden
Slovenia
Slovakia


Return on equity
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
30
25
20
15
10
5
0
EU-28 banks (left-hand scale)
Standard deviation EU member state banks (right-hand scale)
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

Chapter 5

Country-by-country overview

Austria

Following several years of a marked upswing, the growth of the Austrian economy has been decelerating for some month by now. In 2019, the GDP is forecasted to increase by a rate between 1,5% and 2% after nearly 3% growth. in 2018. A modest development of main export markets and the uncertainties due to global trade conflicts and Brexit dampen the economic dynamic.

The unemployment rate, which has fallen for some years will remain low at a level between 4.5% and 5%. Increasing numbers of employed people will be facilitated by higher labour force participation of older people and women. Consumer price inflation, which has been above the EU average for some years, is expected to go down, slightly, to below 2%. The current account surplus will remain at approximately 2% of GDP.

The Maastricht budget balance of the general government was positive in 2018 for the first time since the 1970s. The public households will also show surpluses in the forthcoming years, if not a dramatic deterioration of the economic situation occurs. Public debt, which had reached more than 80% of GDP following the great recession and restructuring measures of some banks, has decreased significantly. Due to the surplus of public households and the successful resolution of bad bank vehicles the public debt ratio declined to about 70% and will reach the Maastricht criterion of 60% in a few years.

Austria has a highly developed banking sector. The Austrian banking network consists of nearly 600 banks (according to the Austrian definition, which is broader than that of the CRR) with some 3,600 branches, making it one of the most densely banked in Europe (2,400 inhabitants per branch). However, the trend towards self-service, online banking and banking apps has induced a consolidation both of credit institutions and branches. Starting with the financial crisis, this development has accelerated since 2016. Since 2008 the number of employees decreased by 8.5% to 73,500 at year end 2018.

The Austrian banks' geographical focus apart from their home market is Central Eastern and South Eastern Europe (CESEE).

The Austrian banking industry can be divided into several sectors, the biggest ones are the joint stock and private banks, the Raiffeisen sector and the saving banks. The joint stock banks, including the central institutions of the cooperative groups and savings banks, have Austrian as well as foreign shareholders. Only very few banks have a public entity as a shareholder.

Besides the dense network of branches, 90% of the population over 14 years old uses debit or credit cards. For some years the share of contactless debit cards has continued to rise, and contactless mobile solutions which integrate the debit card into a smart phone have been rolled out. However, significant parts of the population show a strong propensity to use cash, supported by free and easy access via 8,770 ATMs.

In line with the global trend of deleveraging, the balance sheet total of the Austrian credit institutions has decreased since the outbreak of the financial crisis. Although it rose in 2018 due to the dynamic economic conditions by 4.8% to €855 billion, it was lower, by approximately one fifth, than in 2008. This reduction has been primarily caused by significantly shrinking interbank exposures and investments in securities. Deposits are the private households' preferred way of holding financial assets in Austria. Insurance products are ranking second, albeit at significantly smaller volumes than deposits. They are followed by stocks and interest-bearing securities. Non-bank deposits have increased steadily over this period and amount to €426 billion in 2018. Loans to non-bank borrowers have remained more or less static in past years but have shown signs of an upturn recently. They amounted to €452 billion at year-end 2018.

Low interest rates and the flat yield curve provide a very challenging environment to the banking industry. Nevertheless, the consolidated annuals accounts of Austrian banks, which include the CESEE subsidiaries, show a rising net interest income. The operating results and net profits increased as well. The Common Equity Tier 1 (CET 1) ratio has shown an upward trend over recent years and came to 15.4% at year-end 2018. This is still below the average of European peer banks and, therefore, a further consolidation, i.e. a continuing shift from branches to online and mobile banking as well as a reduction of employment, can be expected.

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Belgium

According to the European Commission, after an increase of 1.4% in 2018, Belgian GDP is expected to grow by 1.2% in 2019 and 2020. Compared to 2017 (+1.7%), GDP growth eased in 2018 in the wake of the economic slowdown in the Euro area, as a whole, to which the very open Belgian economy was all but immuned. However, several positive developments should be noted: the policy to improve competitiveness by reducing labour costs (including a major tax shift operation) supports exports and employment growth (employment grew by 1.2% in 2018, and the unemployment rate fell from 7.1% in 2017 to 6.0% in 2018). Investments are in a relatively strong phase, in particular, equipment investments by companies.

The Belgian banking community is characterised by a variety of players who are active in different market segments. BNP Paribas Fortis, KBC, Belfius and ING Belgium are the four leading banks (with a combined balance sheet on a non-consolidated basis of 66% of the sector total at the end of 2018) and offer an extensive range of services in the field of retail banking, private banking, corporate finance and payment services. In addition, a number of smaller institutions exist which are often active in a limited number of market segments.

Like the Belgian economy, the banking sector is characterised by a high degree of international openness. Of the 87 banks established in Belgium at the end of September 2018, 84% were branches or subsidiaries of foreign institutions, and only 16% had Belgian majority ownership. At the end of 2018, 13 credit institutions under Belgian law had 87 entities in 25 other countries.

At the end of 2018, there were 2,983 bank branches in Belgium (adding branches held by independent bank agents, this number reaches 5,126). The number of ATMs amounted to 13,118, including 7,869 cash dispensers. E-banking and mobile banking are strongly on the rise: 12.9 million subscriptions for internet banking and 7.0 million subscriptions for mobile banking. As a result, several banks are restructuring their retail distribution network and will continue to do so.

Banks in Belgium employ some 52,000 wage-earners, with 120,600 in the wider financial sector. The sector invests continuously in staff skills: almost 3% of total annual staff costs is spent on training. The swift digitisation is one of the factors that necessitate a permanent shift in competences.

At the end of 2018, the Belgian banks' total assets (on a consolidated basis) amounted to €993 billion. Interbank claims accounted for approximately 20% of the total balance sheet. Loans to households also accounted for one-fifth of the total balance sheet, followed by investment in debt securities issued by financial and non-financial companies and public sector entities (18%) and corporate lending to non-financial companies, taking up about 14% of the total assets. In the Belgian banking sector, 69% of the liabilities are clients' deposits (including debt evidenced by securities), mainly consisting of regulated saving deposits, sight deposits and term deposits.

In recent years, banks have eased their criteria for granting loans to companies. In the fourth quarter of 2018, banks slightly tightened these criteria for the first time since the first quarter of 2013. Credit demand by companies increased considerably. The volume of outstanding loans to non-financial corporations (NFCs) rose to a record level. Long-term loans, in particular, are also on the rise. Companies want to make

maximum use of and fix the exceptionally low interest rates, driven by the ECB's extremely accommodating stance. In addition, almost three-quarters of the NFC loan volume is granted to SMEs.

Belgian households had gross financial assets of €1,317 billion at the end of 2018. In addition to deposit products (Belgian households, non-banking companies and public authorities together had around €530 billion in deposit accounts with Belgian banks at the end of 2018), banks offer a wide range of investment instruments and services. Asset management is an important part of this area, with banks (often through their asset management subsidiary) commercialising many investment funds.

Since 2008, the Belgian banking sector has worked on its financial soundness through a phase of balance sheet deleveraging, among other things. The cost-to-income ratio fell from 72.1% in 2012 to 61.2% in 2018, indicating a significant improvement in cost efficiency. The return on average equity (ROE) was 8.0% in 2018. The Liquidity Coverage Ratio and CET I ratio also remained very robust in 2018, at 144.6% and 15.6% respectively. Finally, the credit quality is solid, with an impaired claims' percentage of 2.3% at the end of 2018.

The sector is aware of the major challenges ahead. The climate of continuing extremely low interest rates increases the banks' focus on adjusting their business models. At the same time, digital applications are picking up speed, a development that is being met with substantial investments. Emphasis is put on shifting services from the traditional branch network to digital banking via online channels and (smartphone) banking applications. FinTech has become an important factor, and the Belgian financial centre is taking many notable initiatives such as Start It@KBC, ING Fin Tech Valley, Co.Station and The Birdhouse, among others. For the future, and keeping a commitment to climate in mind, financing the energy transition (for families as well as companies and governments) will also be an important challenge.

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Bulgaria

Driven by private consumption and business investments, in 2018 Bulgarian GDP recorded slower real growth of 3.1% compared to 3.8% in 2017. Nevertheless, the economic growth in Bulgaria was above the average for the EU economy for the fourth successive year.

In 2018 the unemployment rate declined to the historically low level of 5.2%. Mainly due to price changes in the energy resources and higher internal demand, the average annual change of HICP in Bulgaria increased to 2.6% in 2018 compared to 1.2% in 2017.

The favourable state of the Bulgarian economy, characterised by low unemployment, increasing incomes, stable fiscal position and the lack of excessive imbalances had a positive impact on the Bulgarian banking sector. It was also marked by several tendencies: consolidation processes, increasing growth in deposits, continuing increase in lending accompanied by higher revenues, decrease in non-performing loans (NPLs) and growing digital challenges.

At the end of 2018, there were 25 banks operating in Bulgaria, five of which were foreign bank branches. The top five banks held approximately 59.4% of all assets in the banking system. At the end of 2018 the market share of domestic banks was 22% and the share of EU subsidiaries was 72.1%. The number of banks is constantly decreasing due to the consolidation processes taking place in the sector.

The volume of cashless payments has been growing steadily. Between 2015 and 2017 the number of card payments initiated through virtual POS terminals increased by 43%, and their amount grew by 91%. In 2017, 56% of the credit transfers were initiated electronically, which represents two third of the total value of all credit transfers. According to preliminary data from the Bulgarian National Bank (BNB – the central bank of Bulgaria) for 2018 and 2019, these trends have been maintained.

In 2018 banks' total assets increased by 7.9% year-on-year to €54 billion (BGN 105.6 billion). The share of loans and advances increased to 63.3% compared to 61% at the end of December 2017. The share of cash dropped to 19.3% from 19.9% and the share of securities decreased to 12.9% from 14.3%.

The loan portfolio of the banking system grew at a moderate pace due to the favourable economic environment, low interest rates, competition and higher loan demand. According to the BNB's interest rate statistics, average interest rates on new deposits remained low in all sectors and currencies in 2018, and interest rates on loans declined compared to the previous year.

The total amount of loans outstanding to the non-government sector (non-financial corporations and households), rose to €27.87 billion (BGN 54.51 billion) from €25.87 billion (BGN 50.63 billion), according to the BNB monetary statistics. In the last year the outstanding loans to non-financial corporations, including small and medium-sized enterprises (SMEs), which represent 99.9% of all enterprises in the country, increased by 5.4%, reaching €16.7 billion (BGN 32.69 billion). By sectors, the highest amount of loans and deposits were in the trade, manufacturing, construction and real estate industries.

Deposits held by banks grew by 7.3% in 2018 and reached €39.7 billion (BGN 77.66 billion), or 72% of GDP, despite the low interest rate levels. Approximately two thirds of the deposits were held by the household sector (66.4%).

The banks have used the favourable momentum to clean their loan portfolios intensively as evidenced by the decline in the share and the amount of NPLs. As of 31 December 2018, the amount of NPLs (excluding central banks and credit Institutions) dropped to €2.3 billion (BGN 4.54 billion) in absolute terms, or to 7.5%. Although the level of NPLs is still above the EU average, the higher level of coverage for gross non-performing loans by provisions compared with the average level of the EU countries is typical for the Bulgarian banking system.

The higher credit growth, accompanied by increased revenues from payment services, the better quality of the loan portfolio, the lower impairments, the declining interest rates and some one-off effects influenced the financial result of the sector for 2018 as the adjusted net profit of the system grew by 12% to €736 million (BGN 1.44 billion). Adjusted net interest income decreased by 0.6% to €1.36 billion (BGN 2.66 billion) despite the increase in lending. The adjusted net income from fees and commissions increased by 4% to €530 million (BGN 1.04 billion).

The capital position of the banking sector continued to be marked by a significant capital surplus above the regulatory requirements for the capital adequacy and leverage ratios, at a system and local level, as well as in comparison with the average levels of European banks. At the end of 2018, CET 1 for the whole banking system was 18.99% and the total capital adequacy was 20.38%. The Liquidity coverage ratio stood at 294.1%. In 2018, return on assets increased to 1.6% from 1.2% and return on equity grew to 12.1% from 9.3% a year ago.

In 2018, the banks paid €72 million (BGN 140.8 million) as a corporate tax, which represented 5.7% of all corporate tax revenue in 2018.

As of the end of 2018, 65,400 people were employed in the financial sector, and approximately half of them were in the banking sector.

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Croatia

Croatian economic growth in 2018, based on stable domestic demand, slowed down to 2.6% as a result of the negative contribution of net foreign demand. Growth in personal consumption was supported by increase of available income as well as positive movements in the labour market. Investments grew by 6.1% while government consumption declined to 2.3% year-on-year. Exports of goods and services recorded positive movements but stronger growth in imports of goods and services highlights the continued high import dependence. However, in comparison to the pre-crisis period, economic growth remains healthier due to the significantly decreased external vulnerabilities and improved fiscal metrics. Thanks to improved debt ratios, the country exited the EU procedure on excessive macroeconomic imbalances in the last In-Depth Review. Finally, Standard & Poor's upgraded Croatia to BBB- with stable outlook, thus becoming the first rating agency to award investment grade rating to the country.

Croatia ended 2018 with a small budgetary surplus at 0.2% of GDP. The second surplus in a row was driven by an improvement in the financial results of the government and public corporations and from better-than-expected tax receipts, which brought the biggest positive contribution to fiscal improvement. Positive impact also came from decreased interest expenses thus resulting in a primary balance surplus for the fourth consecutive year (2.5% of GDP). Furthermore, an increase in investments was recorded, which was 33.8% higher than in 2017. On the other side, payments for guarantees, called for shipyards, caused a decrease in the surplus. Stronger Croatian kana (HRK) and faster nominal GDP growth, combined with continuation of fiscal consolidation and interest bill cuts, have further reduced public debt to 74.6% of GDP.

Moderate inflation, ample, and even rising, liquidity, low interest rates and a stable foreign exchange (FX) rate have remained the main features of the financial markets. No changes in monetary policy are expected during 2019 i.e. accommodative stance to be kept, as long as inflation remains modest, and the FX stable. From a risk perspective, monetary easing is allowed by banks' strong external positions, steady FX outlook and reduced fiscal risk.

The rising surplus of liquidity in the financial system has focused the competition between banks on lending. In the corporate segment, credit demand remains subdued, as long as the result of the restructuring process in Agrokor - the largest private entrepreneur and main trading chain for numerous local producers – is uncertain. In April 2019, former creditors took over the management of the company. The consequent improvement in business optimism should have a positive impact on credit demand in the corporate segment.

Households with below-average salaries have limited access to housing loans as result of the more restrictive criteria applied last year. These criteria do not apply to non-housing consumer loans, and unsecured cash loans have accelerated by 12.5% on an annual basis. Finally, in February 2019 the regulator recommended that banks apply the same criteria to all non-housing loans with original maturity equal to or longer than five years as they apply to housing consumer loans. Regardless of recommendations, growth in cash loans is expected to continue.

Interest rates offered by banks on time deposits are close to zero. At expiry of time deposits, clients are not motivated to renew the contract and the amounts simply remain on their demand accounts. Consequently, the share of time deposits has fallen under half of total customer deposits. As interest rates offered on time

deposits are not forecasted to change in 2019, the maturity gap in banking assets and liabilities will deepen further.

The banking sector has realised an 8.4% return on equity in 2018. Gross incomes were lower by 8% on a yearly basis, but the reduction of risk costs resulted in a 46% rise in profit after tax. The NPL ratio fell to 9.8% as a result of improved collection and debt sales. Portfolio quality is expected to make a positive contribution to the banking sector profitability in the coming period, but the base is shrinking. On the negative side, the credit registry has suspended consumer debt reports since May 2018 due to incompatibility with the GDPR. Rising consumer loans, disbursed without information of total client indebtedness could lead to higher NPL ratios and risk costs in the future. It is still unclear when the credit registry will be able to renew the full service.

In November 2018, the largest merger took place in the local market. The Croatian branch of SocGen merged with OTP. The rnlarged OTP took the fourth rank with more than 10% of market share. Twelve small banks are still active on the market, but with low probability to realise profitable business sustainably. Improvement in cost efficiency is limited in the rising complexity of regulation. The way out for small banks could be through the improvement in economy of scale, so the motivation for mergers and acquisitions would not be missing.

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Cyprus

Having successfully implemented a three-year austerity programme under the continuing supervision of the international lenders, Cyprus is now in a position permitting optimistic projections for the near future.

Real GDP growth reached 3.9% in 2018, exhibiting one of the best performances in Europe. Unemployment in Cyprus has been declining steadily and reached 8.4% in 2018, close to the euro area average.

During this period, banks have contributed towards Cyprus's successful performance after the conclusion of the economic adjustment programme, having managed, gradually, to restore credibility, restructure operations and procedures, and overcome challenges to finance new viable projects and investment opportunities. At the same time, banks have had to comply with an ever-increasing number of supervisory and regulatory requirements.

The banking sector in Cyprus comprises domestic banks and international banks with Cyprus-based subsidiaries or branches. Beyond the traditional deposit and lending services, banks in Cyprus operate under the universal banking model as they offer a diverse range of products and services. Deposits from customers have traditionally been the main source of funding for banks and that element remains stable for the local banking sector.

There are 34 authorised credit institutions in Cyprus, consisting of seven local authorised credit institutions, three subsidiaries of foreign banks from EU Member States, two subsidiaries of foreign banks from non-EU countries, five branches of banks from EU Member States, 15 branches of banks from non-EU Member States and two representative offices.

Within the framework of the European Banking Union, since November 2014, the Bank of Cyprus, Hellenic Bank and RCB Bank, were among the European credit institutions that came under the direct supervision of the ECB, as part of the Single Supervisory Mechanism (SSM) provisions, whereas the subsidiaries of Greek banks are supervised by the SSM as their parent banks are systemic in their home country.

All banks are adhering to the SEPA direct debit scheme, administered by JCC Payment Systems (a national card acquirer). A law transposing the revised Payment Services Directive (PSD2) was enacted in April 2018. The banking sector, through the Association of Cyprus Banks (ACB), has been undertaking preparations in order to deal with payment innovations that will be brought by open banking and instant payments as well as with the necessary increased payment safety.

In 2018, consolidation took place in the banking sector as there were acquisitions of institutions as well as a reduction in branches. As of the end of 2018, there were 384 branches in Cyprus (compared to 458 in 2016) and banks had a total of 8,940 employees. Banks provide a widespread ATM network as well as mobile solutions, contactless transactions and smart device applications to customers, while they continuously upgrade their online banking sites.

During 2018, aggregate bank deposits remained fairly steady at €48 billion, as confidence gradually returned. Bank deleveraging is continuing, and total outstanding loans were reduced by €12.2 billion throughout 2018 (a 23.7% decrease from the end of 2017) as banks maintained their efforts to reduce non-performing loans (NPLs). However, during the year a total of €3.1 billion of new lending was given to firms and households.

The banking sector is making significant progress in addressing the high level of NPLs. Cyprus recorded the largest decrease among EU countries in NPLs between June 2017 and June 2018, according to a report by the European Banking Authority (EBA). It is notable that in 2018, NPLs declined by €10.3 billion, a reduction of 50%. This downward trend can be attributed to the transfer of the NPL portfolio of the Cyprus Cooperative Bank to the Cyprus Asset Management Company (CAMC), the sale of loans, the reclassification of loans as debt instruments held for sale as well as loans which have been successfully restructured and reclassified as performing at the end of the probation period, loan write-offs, loan repayments and debt-to-asset swaps.

In the area of financial education, the ACB and its member banks launched during 2016 an initiative named "More than Money". The project is aimed at familiarising primary school pupils with concepts related to money management and it was extended to more schools and students in the country in 2019. It is implemented by the organisation "Junior Achievement" (Cyprus) and is under the auspices of the Ministry of Education and Culture. Within 2019, a new programme will be introduced to secondary school students.

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Czech Republic

Although the Czech economy slowed down in 2018, the robust 2.9% GDP growth was still above the potential. Domestic demand, in particular, investment activity, was its main driving factor. This reflects, on the one hand, the tightening of the labour market and increased corporate investment in automation and, on the other, growth in government investment.

Growth was accompanied by a small general government surplus, slightly declining government debt and balance of current payments equilibrium, labour market disequilibria significantly increased during the year. The unemployment rate of 2.1% was the lowest in the history of the Czech Republic but the gap between number of vacancies and that of job seekers increased.

In the long term, the sustainability of Czech public finances in terms of an aging population and the need for fundamental reforms of pension system and health-care financing will be crucial.

Price stability has still been the distinct feature of the economic development during 2018 – the average annual inflation rate was 2.1%, and the rate stayed close to the central bank's target during the year. Growing inflationary pressures, coming particularly from the labour market, were absorbed by interest rate policy. Since February 2018, the Czech National Bank (CNB) has raised monetary policy rates five times, thereby gradually increasing the main two-week (2T) repo rate, from 0.50% to 1.75%.

By the end of 2018, the number of licensed banks operating in the Czech Republic increased by two to 49. The banking sector consists of four large banks, five medium-sized banks, nine small banks, 26 branches of foreign banks and five building societies. A total of 40 entities - 14 banks and 26 branches - were under the control of foreign owners. Domestic owners controlled nine banks, of which two are banks with state participation.

By the end of 2018, the total value of the banking sector's assets rose by 3.8% to CZK7,332 billion. At the end of the year, the volume of assets relative to GDP decreased only slightly to 138%.

The aggregate capitalisation of the Czech banking sector consistently exceeds regulatory capital requirements and the total capital ratio of banks reached 18.6%, while 97.8% of the capital was formed by Tier 1 capital. One of the main advantages is the still comparatively low ratio of non-performing loans (NPLs), whose value decreased further to 1.4% compared to the previous year, thus remaining one of the lowest in EU, while the coverage ratio of NPLs by allowances of 57.7% was among the highest. The net profit for 2018 grew by 8.9% year-on-year, to CZK82 billion. The return on equity stood at 14.6% and the return on assets reached 1.2%.

The total volume of bank loans rose by 7.2% at the end of 2018 compared to the previous year, reaching CZK3,306.5 billion. Banks provided CZK1,550.5 billion in loans to households, almost 8% more than in the previous year, corporate loans reached CZK 1,080.3 billion at the year end, up by 5.7% y-o-y (the growth rate by one percentage point higher than in 2017).

During 2018, households drew new housing loans from banks and building societies worth CZK357.5 billion, 3.2% more than in 2017. Since October 2018, the central bank's recommendations began to apply, limiting the maximum allowable level of the debt to income ratio (DTI) to nine times the annual net income and the debt service to the net monthly income ratio (DSTI) to 45%. The number of new mortgage transactions fell

in the last quarter. The trend of rapid increases in bank consumer lending seems to have ended after several years - households borrowed CZK116.4 billion during the year 2018, i.e. 1.5% less than in 2017.

The trend has apparently changed in the area of corporate financing, too, because after a double-digit decline in 2017, the volume of corporate loans finally increased, albeit by less than 1%. In the course of the year, businesses drew new loans totalling CZK461.8 billion. The demand for credit most likely reflected the reaction of manufacturing companies to the lack of qualified job applicants in the form of investments in robotics and automation of production.

At the end of 2018, customers' deposits totalled CZK4,445.6 billion and exceeded consumer credit by almost 34%. With only very slowly rising deposit interest rates, households preferred immediate availability of deposited funds. Households held CZK2,558.5 billion of deposits in banks, i.e. 8% more than in 2017; over three-quarters of them on-demand deposits. The value of time deposits grew by almost 2% at the end of the year, amounting to CZK560.8 billion.

Traditionally, the overhang of deposits over loans has been generated by the household sector, where households have placed savings with domestic banks exceeding by 61% the value of loans. In the corporate sector, the volume of deposits and loans is broadly equal. The excess of deposits over loans means, on the one hand, a relatively low dependence of banks on interbank funding, on the other hand, it limits the transmission of monetary policy.

Internet and mobile banking became the standard among the Czech population. Its active use by 62% of individuals aged 16 to 74 was in 2018 above the EU average (54%). Following the testing phase of the central bank application to ensure the interbank settlement of immediate payments (transfer within ten seconds, in the 365/7/24 mode, of up to CZK 400,000), that ran from September 2018, banks started to prepare for its routine use in practice.

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Denmark

The Danish economy has continued its steady real GDP growth of about 2%. The employment also continues to increase, and it is now estimated to be above the structural level, leading to a rising pressure on the labour supply. However, tight fiscal policy and an expected rise in the work force suggest a limited risk of an overheating of the economy.

The number of employees in the financial sector is still decreasing, reaching 31,385 employed in 2017 compared with 40,907 in 2000. In 2018, there were 65 banks and seven mortgage banks in Denmark. Persistent consolidation has resulted in a large decline since 2000, when there were 185 banks and ten mortgage banks, yet the trend has slowed in the most recent years.

The special Danish mortgage system is a defining component of the financial sector in Denmark. Danish mortgage bonds are securities with high credit quality and very high liquidity.

Since the beginning of the financial crisis, the Danish banks have gradually recovered. However, earnings in the banks declined in 2018 from a record high in 2017. An analysis of the 18 largest banks and mortgage banks shows a decline in earnings from €5.5 billion to €4.1 billion and the return on equity now amounts to 8% compared to 11% in 2017. The decrease in 2018 reflected the turbulence on the stock market and continued low net interest income. An increased focus on and, hence, greater expenses for compliance and anti-money laundering also affected the earnings.

Overall, the Danish banking sector is robust, and banks have increased their capitalisation since the beginning of the financial crisis. The Danish banking sector had an overall capital ratio of 23%. In 2018, ten percentage points higher than in 2008. In addition, the core capital ratio was 19% in 2018. Both figures have been stable over the last three years. The Danish banking sector has also proved to be well capitalised and resilient in the stress tests conducted by the European Banking Authority).

The Danish financial sector is one of the most digitalised in world, and the digitalisation is still evolving with new initiatives such as a new mobile app for the online log-in solution, NemID. This is amongst the initiatives aimed at fighting the increase in online crime targeting the banks and its customers. Much of the digital development (including the new mobile app) has been achieved due to a good collaboration between the financial and the public sector.

Deposits are still rising. Atthe end of 2018, the Danes' total deposits in the banks were €130 billion corresponding to an increase of 4.6% from 2017. In 2019, a new initiative, the "Share savings account" (Aktiesparekonto) has been rolled out, which gives a new option for Danish citizens to, invest, easily, at an advantageous tax rate, savings of up to approximately €6,500.

In early 2019, Finance Denmark launched a Forum for Sustainable Finance consisting of leading persons from companies, think tanks and experts within climate and sustainability. The forum will help support EU's transition towards a more sustainable economy.

With Money Week, Finance Denmark and Danish banks put focus on personal finance in the municipal primary and lower secondary schools. The purpose of Money Week is to teach children and young people personal finance terms, such as interest rates, loans and budgets and to prepare them to take responsibility

for their own personal finances so that they avoid getting into financial trouble. More than 16,000 pupils - or more than one in ten Danish pupils of the targeted age - participated in the Danish Money Week 2018. Sessions on financial literacy, how to budget and save and generally take care of personal finances, were given by teachers and more than 700 guest lecturers.

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Estonia

The Estonian banking sector consists of 17 banks of which nine are licensed credit institutions in Estonia and eight are operating as branches of foreign credit institutions. Banking sector assets totalled €25.2 billion, equivalent to 110% of Estonian GDP. The Estonian banking sector is dominated by foreign capital holding 90% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank and Luminor Bank. LHV Bank, the largest bank based in local capital, holds around 6% of banking sector assets. Banks are serving two million private and 0.3 million corporate customers through 135 bank branches. Estonian customers are operating 1.8 active current accounts per inhabitant and 1.25 active internet bank accounts per inhabitant.

Money laundering concerns have been raised regarding transactions in the late 2000s and early 2010s and involve serving mostly non-resident high-risk customers allegedly without proper due diligence measures.

One small foreign-owned bank, Versobank, had its licence withdrawn by the ECB in 2018 and the Estonian FSA ordered Danske Bank's Estonia branch to shut down operations before the end of 2019. Both banks specialised mainly in corporate finance in Estonia and had market shares of 1% (Versobank) and 6% (Danske Bank Estonia branch).

The share of deposits of non-resident customers has been decreasing significantly in recent years and continues to do so. At the beginning of 2013, the share of non-resident deposits in Estonian banks constituted almost 20%, by the end of 2018, their share had decreased to 9%. The share of deposits originated by non-resident customers registered in offshore territories has decreased ten times, currently making up less than 1% of the whole deposit portfolio.

The Estonian banking sector has zero tolerance when it comes to money laundering or terrorist financing. Local banks are enforcing agreed financial sanctions and the Estonian Banking Association has submitted its proposals for using legislation to shore up anti-money laundering efforts to the newly elected parliament.

Estonian banks have issued 1.4 bank cards per inhabitant, 80% of which are debit cards, and 20% credit cards. Some 65% of retail payments are initiated by bank cards and more than 99% of payment orders have been initiated electronically since 2009. Only 4% of the population receives income entirely or partially in cash.

Banks hold €17.7 billion worth of deposits and operate loan portfolios to the value of €19 billion. The rapid growth of the banks' loan and lease portfolio continued in 2018. The banking sector is mainly funded through the deposits of resident clients, though financing from parent companies plays an important role in the funding of a number of banks. A similar amount of profit was earned as in the previous year, and most banks continued to have high levels of own funds. Changes to income tax law encourage the banks to pay out more in dividends, and so the capitalisation of the banks will fall in time as their assets increase.

Bank deposits continue to grow faster than debt liabilities - the bank deposits of households were 9% larger at the end of 2018 than they were at the end of 2019. The rise in incomes and in employment has meant the saving rate of Estonian households has been quite high in recent years.

The average interest rates on new loans did not change substantially in 2018. The average rate for long-term corporate loans issued in December was 2% and the average interest rate for new housing loans was 2.4% by the end of the year.

The quality of the loan portfolio remained good: the value of loans overdue by more than 60 days was 0.2 percentage points lower than the year previously, at 0.5% of the loan portfolio.

Housing loans account for about 40% of the loans to the non-financial sector, which is slightly above the average for the countries in the EU, but as a share of total assets, the volume of these loans is one of the largest in the EU. This reflects the universal banking model used by banks in Estonia, the concentration of the domestic market and the preference of households for homeownership over renting. It also indicates that the operations of banks in Estonia are less diversified than is the average for the EU. Credit growth continues to be supported by very low base interest rates and by relatively strong competition in the corporate loan market, which has kept interest margins low.

The profitability of the Estonian banking sector has been among the strongest in the countries of the EU. The Estonian banking sector is relatively cost efficient, which may be partly because the expenses of the local units of foreign banking groups can be reflected at group level rather than local level. Profitability is also aided by smaller loan losses than in other countries and quite large spreads between interest income and interest expenses. Net profit earned in 2018 was €356 million, marking a 6% rise compared to the 2017.

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Finland

The Finnish economy grew by 1.7% in 2018. As a result of this growth, the volume of gross domestic product exceeded the previous peak, reached prior to the financial crisis in 2008. In the class of demand items, investments grew by 3% and exports by 1%. The biggest demand item, private consumption expenditure, grew by 2%.

Household consumption increased as the level of employment rose to 72.5% and wages and salaries grew by 1.7%. Households' savings ratio was -0.3%s.

In the strengthened economy, the general government deficit continued to decrease. The general government's financial position recorded a deficit of 0.6% relative to GDP. The deficit was reduced particularly by growth in tax revenue.

The housing market cooled slightly. The number of new housing permits is on the decrease, which reflects the cooling down of the construction market. However, the previous years' large number of housing starts will keep the number of completed houses on a high level for a while still.

The Finnish banking market is dominated by four major banks, which together, hold 81% of the market shares. Nordea Bank, OP Financial Group and Municipality Finance are deemed domestically significant institutions (O-SII) and are directly supervised by the ECB. Smaller domestic retail groups, like Savings Banks group, POP Bank group and other small domestic banks, are under the supervision of the Finnish Supervisory Authority.

The biggest group by market share (35.5%) is OP Financial Group. The group is made up of 156 independent member cooperative banks and the OP Cooperative, which they own. Second largest is Nordea Bank with a 25.8% market share. In October 2018, Nordea moved its headquarters to Finland, as a result of which the Finnish banking sector grew to over three times the size of GDP. Danske Bank and Municipality Finance are nearly equal in terms of their market shares, 9.5% and 9.7%, respectively. Danske Bank turned its Finnish subsidiary into a branch at the end of 2017.

Foreign ownership dropped dramatically after Nordea's move to Finland. Danske Bank, Handelsbanken and their Scandinavian peers operate in Finland as branches. All the other credit institutions are privately owned except for Municipality Finance, which is specialised in financing the Finnish public sector.

New housing loans taken out were 2.2% higher than the previous year. At the end of 2018, the total housing loan portfolio stood at €97.8 billion (42.2% of GDP) after growing by 1.7% during the year.

Households' debt-to-income ratio rose and was 127% at the end of the year. Discussions about household indebtedness continue and new macroprudential tools are being considered. The growth rate of debt is moderate, but the overall level of debt is what worries the authorities.

Although deposits from households are the largest single source of funding for domestic banks, the sector's funding can be said to be heavily dependent on market funding as well. Market-based funding accounted for 57% of the total funding after Nordea's headquarters change. However, the dispersion is high between credit institutions: some fund their operations almost entirely with deposits, while others, especially mortgage credit institutions, only issue covered bonds. Almost 40% of Finnish mortgage loans are funded

by covered bonds. The ratio of loans to deposits increased and was 163% at the turn of the year, because all the performance ratios have been affected by the transfer.

Lending to corporates (housing corporations included) increased by 5.4%, with growth broadly based across economic activity sectors. At the end of December, the stock of loans to non-financial corporations stood at €85.3 billion (36.8% of GDP), of which loans to housing corporations accounted for EUR 32.0 bn. The corporate loan stock grew by €2.7 billion during the year, which is the most it has been since 2011.

As noted above, the balance sheet of the Finnish banking sector grew to €780 billion (336% of GDP). However, comparisons to previous years should be made carefully as, all the performance ratios have been affected by the transfer.

The capital adequacy of the Finnish banking sector remained strong. At the end of the year, its overall capital adequacy ratio was 20.9%. The Common Equity Tier 1 ratio (CET1) stood at 17.2%. The leverage ratio was 5.8%, which is slightly higher than the European average.

The comparable operating profit of the banking sector was slightly weaker than in 2017, but net interest income improved thanks to loan volume growth and low-cost funding. Other income items were weaker than in 2017. A sharp drop in net investment income reflected stock market volatility in the fourth quarter of 2018.

Banking sector expenses rose slightly in 2018, mainly related to IT development costs, which have been high due to the heavy investments banks have made in digitalisation and service development in recent years. In the long run, the higher level of automation will increase efficiency and decrease costs.

The efficiency of the banking sector in terms of cost to income ratio was 54%. However, dispersion between the banks is very high depending on both the bank size and business model.

Non-performing loans remained at a low level, at 1.7% of total loans.

The sector's short-term liquidity position strengthened with the liquidity coverage ratio (LCR) at 175%.

The financial sector remains a significant taxpayer. The sector's corporate tax contribution was €865 million, or 15% of the total annual corporate tax revenue in Finland.

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France

After a strong year in 2017, GDP growth in France slowed to 1.7% in 2018, from 2.4% in 2017. Temporary factors, such as strikes in the transport sector weighed on French activity at the beginning of 2018. Economic activity slightly accelerated in the second half of 2018 but was impacted by social protests at the end of the year. In this context, household consumption stagnated in the fourth quarter despite several fiscal measures in favour of purchasing power adopted before the social protest movement began. Although less vigorous than in 2017, investment (by both corporates and households) remained dynamic. In the near future, GDP growth is set to decrease, while remaining above potential. Government deficit and debt will stay at a high level in 2019, forecasted by the French Government at -3.1% (above the 3% Euro area threshold) and 98.9%, respectively.

The banking sector is one of France's six main economic assets, according to the OECD. As of January 2019, the French banking industry numbered 340 banks. According to the Financial Stability Board, four French banks are among the eight Euro area Global Systemically Important Banks (G-SIBs). Financial activities account for 3.9% of total value added in France, of which approximately 60% is accounted for by the banking industry. The banking industry employed more than 362,800 people at the end of 2018, representing 1.9% of the private workforce in France, and recruiting more than 42,300 in 2018, while overall banking employment decreased at a moderate pace (-1.0% in 2018).

The results of the combined asset quality review and stress testing, conducted by the European Banking Authority and the European Central Bank, demonstrated the high level of capitalisation of French banks. The aggregate common equity Tier 1 capital (CET1) of French banks was 13.6% at the end of 2018.

The six largest French banking groups, which operate according to the 'universal banking' diversified model, reported a strong financial performance in 2018. Total net banking income reached €147.7 billion (up 0.9% compared to 2017), of which retail banking accounted for 66%. Total group net income was €25.5 billion (up 6.8%).

Banks finance business development as well as individuals very dynamically in France. Credit is one of the main drivers of growth. At the end of April 2019, outstanding loans to the economy stood at €2,458 billion, up 6.2% year-on-year.

Outstanding loans to businesses stood at €1,307 billion at the end of April 2019, up 6.6% year-on-year, while the euro area rose by 2.7% on average. Outstanding loans for investment was the most important segment, at €734 billion (up 7.0%).

Loans to SMEs accounted for 42% of total loans granted to businesses in April 2019 and rose by 6.6% year-on-year. Access to credit is high: 95% of SME investment loans and 88% of cash credit applications were accepted in the first quarter of 2019. Credit demand remains almost stable: only 23% of SMEs sought an investment loan and 7% requested cash credits.

French banks also actively finance French consumers. Outstanding household loans reached €1,244 billion at the end of April 2019, up 6.3% year-on-year. Most household loans were housing loans, representing €1,026 billion (up 6.2% year-on-year).

The French lending model is both dynamic and sound. The level of non-performing loans is very low (2.8% at the end of December 2018) as is the cost of risk (€7.9 billion in 2018, down 6.4% year-on-year).

Diversification of corporate financing is developing very rapidly in France. Markets account for 37% of corporate financing, compared with 30% in 2009. French banks also have a large and efficient investment banking activity.

French banks' investments, innovation and leading role in the fintech ecosystem make them the natural leaders of the digital financial movement in France. Banking applications for smartphones and tablets rank third among the most used by French people, after the weather forecasts and social networks, according to survey company Opinion Way. More than 2.1 billion contactless payments were made in 2018 (compared with 1.2 billion in 2017).

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Germany

The German economy lost momentum considerably in the summer of 2018. Since then it has been stuck in a marked phase of weakness with very low GDP growth. The slowing of the global economy and the high level of uncertainty because of current trade conflicts have hit German industry, which is strongly integrated into global trade and production chains. However, the service sector and very robust domestic demand are supporting economic growth in Germany. In 2019, GDP growth in Germany is expected to be only 0.7% - after around 2% on average over the last five years.

Germany's banking system comprises three pillars — private commercial banks, public-sector banks, and cooperative banks — distinguished by the legal form and ownership structure.

The private commercial banks represent the largest segment by assets, accounting for 40% of total assets in the banking system. An important feature of the private banks is that they compete keenly not only with banks in other sectors of the industry, but also among themselves. The private banks play a key role for the German export economy, they are involved in 88% of German exports and maintain almost three quarters of the German banking industry's foreign network.

The public banking sector comprises savings banks (Sparkassen), Landesbanken, and DekaBank, which acts as the central asset manager of the Savings Banks Finance Group, representing 26% of total banks' assets. There are currently 385 savings banks. They are normally organised as public-law corporations with local governments as their guarantors/owners. Their business is limited to the area controlled by their local government owners. Other than this regional focus, their business does not differ in any way from that of the private commercial banks. As a result of the so-called regional principle, savings banks do not compete with one another.

Landesbanken were originally designed to act as central banks for the savings banks. In recent years, however, they have been increasingly involved in wholesale funding, investment banking, and international business activities, thus directly competing with commercial banks. The six Landesbanken at present are owned by the federal states and the regional associations of the savings banks.

2018 saw the first privatisation of a German Landesbank: HSH Nordbank AG (now renamed Hamburg Commercial Bank AG) was taken over by a consortium of private financial investors on 28 November 2018. HSH Nordbank AG has been an extraordinary member of the Association of German Banks since 1 January 2018. The change in ownership also involves the bank leaving the institutional protection scheme to become a member of the Deposit Protection Fund of German private banks. This transition will be completed on 1 January 2022. The solution found for this bank could act as a model for future changeovers from other deposit protection systems to the Deposit Protection Fund.

The cooperative sector consists of 875 cooperative banks (Volks- und Raiffeisenbanken) and one central cooperative bank (DZ Bank AG). It accounts for 50% of institutions by number and 18% of total bank assets. The cooperative banks are owned by their members, who are usually their depositors and borrowers as well. By virtue of their legal form, cooperative banks have a mandate to support their members, who represent about half of their customers. However, cooperative banks also provide banking services to the general public. Like the savings banks, cooperative banks have a regional focus and are subject to the regional principle.

The number of banks in Germany has dropped sharply in recent years, and by 52% since 1995. Consolidation to achieve economies of scale has taken place largely within the existing pillars. In most cases in the savings bank and cooperative sectors (contrary to mergers in the private sector), consolidation has been the result of stress rather than proactive business considerations. Pressure to further consolidate in

the coming years stems from the low interest rate environment and banking regulation in recent years such as Basel III which increased banks' capital requirements substantially. German banks fear that real estate and corporate finance could be particularly affected and could seriously restrict banks' lending capacity.

Nevertheless, accompanied by low interest rates and the overall extraordinarily favourable financing conditions, lending to companies and the self-employed increased by 5% in 2018 to €934 billion. Due to the German Energy Transition and the new EU Action Plan "Financing Sustainable Growth", banks have launched many initiatives in recent years to promote sustainable financing.

The very low and partly negative interest rates at present decrease profit opportunities for banks and increase the risk of distortions and price bubbles as well as the danger of zombie banks and firms. For banks in the euro area, the negative deposit rate of the European Central Bank (ECB)operates like a special tax with monthly tax earnings of around €500 million. In order to limit the side effects of the negative deposit rate, the Association of German Banks has proposed an amount of exemption for the excess liquidity holding at the ECB by commercial banks.

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Greece

Greece exited the third stability support programme in August 2018 and has been fully integrated into the European Semester framework of economic and social policy coordination. This marks a clear shift towards a new chapter for Greece after years of financial assistance programmes.

After a prolonged period of recession, GDP growth accelerated to 1.9% in 2018 from 1.5% in 2017, following a cumulative contraction of 26.4% between 2008 and 2016, and is expected to remain at around 2% in 2019 and 2020. Greece's fiscal position has improved substantially. The General Government balance improved, from a massive deficit of 15.3% of GDP in 2009, to a surplus of 1.0% of GDP in 2018. Furthermore, the government primary balance recorded a sizeable surplus of 4.3% of GDP under the "Enhanced Surveillance" definition, exceeding the programme target for a fourth consecutive year. Labour market conditions are steadily improving, with the average annual unemployment rate declining to 18.5% in February 2019, the lowest level since August 2011. A part of capital controls remains in place, following several rounds of relaxations since their imposition in June 2015.

The number of domestic credit institutions has drastically diminished since 2009 from 35 to 15, out of which eight are commercial and seven cooperative. Of the eight commercial banks, only four are deemed "systemically significant", according to the respective SSM definition and these control about 96% of the banking assets. Foreign banks have an insignificant market share, since all but one of the foreign banks with retail customer service networks have divested from Greece. Currently, 20 foreign banks operate in Greece with local branches. In total, the number of bank branches (1,979) has decreased by 51% since 2010 and similarly, the number of employees (39,382) and ATMs (5,594) dropped by 38% and 35%, respectively.

The Emergency Liquidity Assistance (ELA) was virtually eliminated in March 2019 and the Eurosystem exposure was limited to €11.1 billion in December 2018 and to €8.4 billion in March 2019. Private sector deposits increased by 6.3% year-on-year to €134.5 billion in December 2018, as depositors' confidence is improving and external capital inflows are accelerating. The CET1 ratio of Greek systemically important banks, averaged at 15.8% during 2018, setting Greek banks among those adequately capitalised within the EU according to the European Banking Authority (EBA). Following huge cumulative losses in the previous years, Greek banks returned to profits, although profitability remains vulnerable.

With regard to private sector financing, gross loans decreased by 1.1% year-on-year, from €183.9 billion at the end of 2017 to €170.3 billion at end of 2018 since the pace of repayments, write-offs and disposals exceeds new loan demand. Greek banks have contributed to economic recovery mainly through the funding of large-scale infrastructure projects and the ongoing funding of the tourism industry.

Greek credit institutions have submitted to the Bank of Greece and the SSM operational targets for the management of non-performing loans (NPLs) for the period up to the end of 2021, aiming to reduce the NPL ratio to slightly below 20%.

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Hungary

The stability and performance of the Hungarian economy has improved significantly in recent years. In 2018 the country's GDP growth was 4.9%. Among production components of the GDP, the private service sectors and manufacturing industry were the major contributors but the construction industry has also expanded quickly. Regarding the components of use, domestic consumption became the main driver, supported by wage and employment increases. Capital formation also contributed to the good performance and although domestic consumption strongly increases imports, net exports were still an important factor. The economy is close to full employment and a structural lack of skilled labour force, both in terms of specific industries and geographical areas, is an issue.

The average inflation rate during 2018 almost reached the target of the Hungarian Central Bank, at 2.8%.

The surplus on balance of payments, the controlled central budget deficit, decreasing state debt and foreign exposures among state and private debts reduced the financial vulnerability of the country. In addition to the efficient use of EU structural funds, it opened up some room for the government for fiscal stimuli, such as providing extensive home creation and family support allowances.

The penetration of banking had slightly decreased by the end of 2018 especially due to the relatively high growth rate. The sector's total assets were 93.6% of the annual GDP of which 49.9% were held by the top five banks.

The Hungarian banking sector consists of 60 institutions. Among them are 26 commercial banks, nine foreign bank branches, five mortgage banks, four building societies, three specialised banks and – as a result of massive consolidation – 13 credit or saving cooperatives.

At the end of 2018, 49.9% of the banking sector's shareholding was held by domestic entities with almost two-thirds of that in the hands of the state.

The banking sector has 2,235 branches and employs around 40,000 people (0.89% of the total employment in Hungary). For the country's population of 9.8 million in 2018, there are 10.5 million bank accounts, 9.1 million payment cards (of which 72% are contactless), 5,100 ATMs and 136,400 POS terminals.

Electronic payments increased dynamically in 2017. The payment card accepting network grew by 25% and 83% of POS terminals support contactless card acceptance. In 2017, two-thirds of retail payments were made by contactless cards. The proportion of payment accounts accessible by internet or mobile banking services increased by 2.5 percentage points to 82%.

The National Bank of Hungary has launched a project to implement a domestic (denominated in HUF) instant payment solution. The new payment system will be available to make payments between Hungarian payment accounts within seconds, on a 24/7/365 basis. It will also be possible for market participants to provide a range of additional services. This service will start on 1 July 2019.

Some 35% of the banking sector's total loan portfolio is provided to non-financial corporates, 30% to households and organisations closely linked to households and 15% to the foreign sector (three quarters of it to foreign corporate sector). In 2018, corporate lending grew at a rate unseen since the crisis, expanding by almost 15% in annual terms, retail lending lagged behind with an increase of 6%.

The deposit held by the banking sector increased by 9.5% in 2018 in total, with both corporate and household deposits increasing by 15%.

The financing of renewable energy projects usually depends on the visibility of the input-output side and the technology. Profitability typically depends on a feed-in-tariff system, which ensures a subsidised price for the selling of the produced electricity for a fixed period (mandatory takeover period). The banking sector needs a proven and clear technology, a stable and foreseeable regulatory environment and professional investors.

The KÁT feed-in-tariff system in Hungary, which was available for ten years until 2017, was a calculable and reliable system supporting the financing of renewable projects and was very favourable for investors. In 2017 a new financial incentive scheme called METÁR was introduced which is a slightly stricter, more competitive and provides a tender-based price subsidy to investors in the case of larger scale projects. The main trend in Hungary at present is the hegemony of the solar projects. The transition from KÁT Regime to METÁR generated a rush for KÁT licensing before its closure. More than 2,800 KÁT-eligible power plant licences (over 2,000MW combined) were submitted by the end of 2016. The most popular "product" is the solar power plant with 0.5 MW capacity under the KÁT with a 25-year mandatory takeover period. Majority of these projects will be developed and constructed in the next one to two years and there is already a huge financing need for these projects on the banking market.

The capital position of the Hungarian banking sector is stable. The Tier 1 capital adequacy ratio (CAR) is almost 20%, while the total CAR is a bit over 21%.

In 2018, profits of the Hungarian institutions dropped by almost 15% as compared to 2017, but before tax return on equity remained over 13.4%. The reason behind the lower profitability is the moderating rate of releasing impairments.

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Iceland

The commercial banking sector now consists of three universal banks, one investment bank, and four small savings banks that operate in the rural areas. Total assets amount to ISK 3,656 billion, the equivalent to around 140% of GDP in 2018.

The banks are predominantly funded by domestic deposits that are around ISK 1,800 billion or little less than 75% of GDP. Bond issuance has been increasing over the last few years: first and foremost, the issuance of contingent and covered bonds. Total loans in the banking sector amount to ISK 3,681 billion. The asset base is predominately domestic: total domestic assets are ISK 2,861 billion, Icelandic banks have also sold bonds on the international market in recent years. Total foreign liabilities are ISK 683 billion and total domestic liabilities are 2,372 billion.

All the major banks have been profitable over the last six years. The return on equity was 6.1% in 2018. The average interest rate margin has risen from pre-crisis levels reflecting partly the increased share of retail deposits in bank funding. Capital adequacy ratios have risen well above the 16% required by the regulator and are now generally in the 20-25% range of risk-weighted assets.

All the major banks have been increasing their funding in European bond markets and that trend has been strengthened with significant improvements in their credit ratings in 2016. In March 2017 authorities removed the last remaining hurdles of the capital controls that were introduced in 2008 to stabilise the currency during the financial crisis. The lifting of the capital controls on individuals, firms, and pension funds marks the completion of Iceland's return to the international financial markets.

The Icelandic economy has been recording healthy GDP growth in recent years spurred on by a significant increase in tourism along with the contribution from the export sector. GDP growth was 4.3% in 2018 and 4% in 2017. Robust growth has not significantly increased inflation which was around 2.7% in 2018. Strong economic performance along with a healthy current account surplus has led to a general appreciation of the Krona against major currencies in recent years.

At the same time, household and private-sector debt has not increased. Total loan levels in the banking sector have remained stable although there was an increase in loans to the tourism sector.

Since October 2015, ownership of two of the three major banks has been primarily in the hands of the Icelandic government. The government has not introduced detailed plans on how its ownership of the banks will develop. The third bank is listed on the stock exchanges in Reykjavík and Stockholm and the sole investment bank is listed on the stock exchange in Reykjavík.

The banking sector in Iceland bears the largest burden of any sector of the economy when it comes to taxes and government fees. The financial sector paid little less than ISK 40 billion in taxes in 2018. Icelandic financial firms pay three sector specific taxes: bank tax, financial activity tax and a special addition to the financial activity tax. The banking sector currently has around 3,000 employees working in 87 branches around Iceland. Both employment, and the number of branches have decreased in recent years because of ever-increasing digitalisation of the Icelandic financial sector.

The Icelandic banks are all involved in projects to increase public awareness on the importance of financial literacy. The Icelandic Financial Services Association also runs a joint project called Fjármálavit. The project is based on visits from employees from the Icelandic banks to grammar schools where they talk about money and savings. Fjármálavit participates in the European Money Week.

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Ireland

Ireland's economy posted another solid performance in 2018 with gross domestic product (GDP) up 6.7% year-on-year in volume terms. Modified total domestic demand, which removes disproportionate globalisation effects such as intellectual property imports, rose by 3.3%. Ireland's current account surplus increased to 9.1% of GDP in 2018.

The unemployment rate fell to 5.4% by Q4 2018, down from 6.1% a year earlier. The gross saving ratio of households (saving as a percentage of total disposable income) increased from 10.8% in 2017 to 11.8% in 2018.

There were 61 banks operating in Ireland at the end of 2018. These included 24 credit institutions authorised in Ireland (of which five were covered bond banks), 36 branches of banks authorised in other European Economic Area countries that were operating in Ireland and one branch of a non-European Economic Area credit institution operating in Ireland. Twenty of the banks were headquartered in Ireland or had more than 20% of their business with domestic customers. While the number of banks has been stable in recent years, the number of credit unions - not-for-profit, member-owned financial cooperatives funded primarily by member deposits – fell from 272 to 252 between September 2017 and September 2018 as credit unions consolidated. Most credit unions have assets of less than €100 million.

The Irish government has majority stakes in two banking groups (a 71% stake in Allied Irish Banks and 75% in permanent tsb) and a minority stake (14% in Bank of Ireland). The five main banks operate about 650 branches and almost 3,000 ATMs for cash withdrawal nationwide. A significant proportion of ATMs are operated by non-banks.

Card payments continued to grow strongly, especially debit cards for which volumes grew by 22.6% in 2018 to about 938 million. Contactless payment volumes grew by 62% in 2018 and by the last quarter of 2018, contactless accounted for more than 36% of the volume and almost one-tenth of the value of card payments

Outstanding credit institution (bank and credit union) loan balances have declined in recent years as both businesses and consumers have deleveraged, but gross new lending grew in 2018.

BPFI research shows that new residential mortgage lending rose by 19.7% year-on-year to €8.7 billion, of which €1.2 billion was re-mortgaging with a new lender. First-time buyers drew down some €4.2 billion in mortgages.

Gross new lending to small and medium-sized enterprises (SMEs), excluding financial intermediation, rose by 7.7% year-on-year to €5.3 billion during 2018, according to the Central Bank of Ireland. Net lending to SMEs (drawdowns less repayments) declined by €970 million over 2018. The government-owned Strategic Banking Corporation of Ireland also provides wholesale finance for on-lending to SMEs.

Some €23.4 billion of the €42.9 billion loans outstanding to Irish resident private-sector enterprises (excluding financial intermediation) was outstanding to SMEs at the end of 2018. Housing loans of €76.1 billion were on the balance sheets of credit institutions, with a further €21.6 billion in securitised loans.

Other personal credit outstanding continued to recover in 2018, increasing to almost €14 billion by year-end, up from €13.5 billion a year earlier.

Deposits also grew, with private household deposits at almost €98.1 billion at the end of 2018, up 4.3% year-on-year, and deposits of Irish resident private-sector enterprises (excluding financial intermediation) up 3.8% to €58 billion. Most of the growth in deposits came from overnight deposits with household current account balances up 14.5% year-on-year to more than €34 billion. An Post, the State-owned postal service operator, managed a further €20.6 billion in national savings schemes and post office savings accounts on behalf of the national treasury.

Credit institutions in Ireland employed 27,940 people at the end of 2018, according to the ECB. Banks paid some €2.6 billion in wages and salaries in 2018, of which banks mainly active in international markets contributed almost €0.7 billion. They also paid some €0.5 billion in corporation tax. Since 2014, banks have also paid an annual levy of about €150 million. By 2021, banks will have paid €1.2 billion in such levies.

Banks in Ireland have made significant progress in reducing NPL ratios. According to latest EBA data, the NPL ratio was 5.8% as of December 2018, down from 21.6% four years earlier.

Gross value added (GVA) by the banking sector was estimated at €5.3 billion in 2016, according to the Central Statistics Office. Profit after interest and tax rose from €3.3 billion in 2017 to €3.8 billion in 2018. Ireland was also the eighth largest exporter of financial services (excluding insurance and pension services) in the world in 2017, according to UNCTAD.

Total credit institution balance sheet assets rose to almost €600 billion, the first such increase since 2008, reflecting an increase of almost €50 billion in loans outstanding to non-residents. In terms of liabilities, deposits from Irish private-sector residents remains a key source of funding, however, the increase in lending was supported by large increases in deposits from non-euro area residents as well as non-resident capital and reserves.

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Italy

After growing by 1.6 percent in 2017, the fastest in nearly a decade, economic growth in Italy slowed in 2018 at 0.9%. The latest indicators point to a slight recovery in Italian economic activity in the first quarter of 2019, with respect to the previous quarter, interrupting the marginally negative trend of the second half of 2018. Despite the recent financial turbulence, employment and labour force participation have risen, unemployment has fallen, and banks' non-performing loans (NPLs) have declined. Growth is projected at around 0.8% in 2019 and beyond.

The banking sector is among the primary strong points of the Italian economy. Ten years on, much has changed: credit risk is decreasing, capitalisation is rising, restructuring and consolidation are going on, and profitability is recovering.

The health of Italian banks is also reflected in the fundamental role they continue to play in favour of households and firms. Lending to the private sector has been expanding since the end of 2016. Latest figures, as of April 2019, show that total loans to households and non-financial firms continue to grow, increasing by around 0.9% on an annual basis.

Loans to households continued to increase at a robust pace, with an annual growth rate close to 2.6%, driven by loans for house purchase due to the favourable conditions in the real estate market, which is supported by the improvement in the Italian consumer confidence index, low interest rates and lower house prices.

Customer funding remains a strength for Italian banks. In particular, deposits continue to increase, at an annual growth rate of approximately 3.9%, while the reduction in retail bonds continues.

Asset quality is also improving, both in terms of flows and stock of NPLs. The flow of new NPLs, which has been decreasing since 2014, stands at about 1.4% of total loans, below the pre-crisis average.

The stock of NPLs continued to fall at a swift pace, due in part to the massive disposals of NPLs that totalled €55 billion last year, €15 billion more than the amount the sector had set out to sell at the start of 2018. The volume of total net NPLs (which means taking into account the losses on NPLs already accounted for in the banks' balance sheet) amounted to €90 billion. The reduction of the NPLs inflows combined with the increasing outflows have allowed a strong reduction in the NPL ratio, from 16.2% in 2015 to 8.7% in December 2018 if measured in gross terms, or from almost 10% to 4.3% in net terms. This declining trend is expected to continue in the years ahead.

The coverage ratio for NPLs grew from 50.4% in December 2016 to 52.7% at the end of 2018.

Capital adequacy has also increased and is well above the prudential minimum target. Common equity tier 1 ratio of the whole banking sector stood at around 13.3% at year-end 2018 (12.7% for Significant Banks and 16.5% for Less Significant Banks), up from 7.1% in 2007.

The profitability of the Italian banks, even if still lower than the cost of capital, as for the majority of the other European banks, is improving. In 2018 the return of equity (ROE), net of extraordinary components, rose to about 6% from 4.1% in 2017. The overall improvement is mostly due to fewer loan loss provisions (about one-third less), and the 3.9% reduction in operating costs.

The restructuring and the consolidation of the Italian banking sector continue, partly induced by the changing regulatory environment and the digital revolution. This is confirmed by the reduction in the number of banks (the current number of bankplayers, comprising bank holding groups and independent banks in Italy stands at 113), the fall in the number of branches, which decreased by 28% between 2008 and 2018 and the increasing relyance on digital resources.

With respect to the latter, the digitalisation of banking customers has shown a strong acceleration in the last five years. According to a survey carried out by ABI, the use of web banking grew to 56% in 2018 compared with 43% in 2012).

Italian banks and financial intermediaries are also developing a large number of projects in the fintech sector. A study conducted last year by Abilab, a think tank of the Italian Banking Association, showed that more than half of Italian banks are implementing innovative projects in the payments area, followed by security solutions (more than 35% of banks) and investment and lending platforms (more than 20%). As regards the technologies, more than a third of banks are working on big data analytics, blockchain, distributed ledger technology and artificial intelligence and a quarter of banks are prioritising cloud computing and digitalisation of traditional services.

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Latvia

2018 was a year of a continued economic growth in Latvia, with 4.8% GDP growth, the highest since 2011.

In 2018 there were 20 banks operating in Latvia, including 15 credit institutions registered in Latvia, and five branches of banks registered elsewhere in the EU. The Latvian banking sector is dominated by Nordic banking groups, holding 60% of shareholder capital. In January 2019, Luminor Bank began its operations, concluding the merger of Nordea and DNB in the Baltics. Registered in Estonia, it since continues branch operations in Latvia and Lithuania.

Banks served 2.09 million customers through digital channels (predominantly), and 204 bank branches and customer service centres. Banks have installed over 40,270 payment card terminals and 2.17 million payment cards have been issued to clients, that is, 1.12 cards per inhabitant. The number of purchases made using payment cards continued to increase as clients made 358.6 million purchases worth €10.9 billion during the year. Banks embrace the new payment methods, mobile payments and wearable technologies, instant payments, too, are increasingly becoming the new default. Latvia is the first country in the Euro area with instant payments available to over 90% of the customers of Latvia's commercial banks and 24/7/365. More than 900,000 contactless payment cards were in issue in Latvia in Q4 2018, 91% more than in Q4 2017. The number of contactless terminals accepting payment cards reached 27,000 (67% coverage). Banks also provided 990 ATMs with cash withdrawal functions and 369 with cash deposit functions, reflecting a continuing drop in the total number of ATMs (1,015 in 2017).

Total capital of the Latvian banking sector reached €2.9 billion at the end of 2018. It decreased by €0.3 billion or 10% since the beginning of 2018. It was affected by the licence withdrawal of ABLV Bank AS (the European Central Bank decided to withdraw the credit institution's licence in July 2018). The average return on equity in the banking sector of Eurozone was 5.0% in 2018. Eight Latvian banks exceed the average return on equity of the banking sector.

Total deposits of the Latvian banking sector were €16.3 billion at the end of December 2018. The portfolio declined by €3.9 billion or 19% in 2018. The decrease was mainly observed in deposits of foreign companies; deposits of private persons increased in eight banks. The amount of deposits from Latvia and EU member states has increased, from 65% in 2015 to 90% in December 2018; the volume of payment transactions by foreign customers has decreased, from the high €35 billion in Q4 2015 to less than €10 billion in Q4 2018, according to the Financial and Capital Market Commission (FCMC).

The financial sector contributed to the strong growth of investment. Between 2015 and 2018, the ability and willingness of businesses to borrow funds has significantly increased, according to the Finance Latvia Association Lending Index of the business segment. During this period, the lending index for businesses has increased twice as fast as it has for individuals, which shows that the global economic upswing has a positive impact on the Latvian economy. Reflecting the economic mood internationally, however, ability to borrow is generally higher than the willingness to borrow for companies as well as individuals.

While eight banks had loan portfolio increases of 3% to 44% in 2018, the total portfolio decreased by €0.9 billion or 6% in 2018. The decrease was mainly observed in the non-resident corporates segment.

The total profit of banks in Latvia in 2018 was €294 million, €58 million or 25% higher compared to the results of 2017. The Latvian banking industry's return on assets and return on equity were 1.0% and 8.1%, respectively, in June 2018, according to the FCMC.

Latvian banks maintain high capitalisation levels and the total capital adequacy ratio of the banking sector was 22% in June 2018. The average liquidity coverage ratio in 2018 was 249%. Banks have committed to contributing to the work on sustainable finance, as Finance Latvia joined the UNEP FI Principles for sustainable banking in April 2019.

The Latvian banking sector is stable, resilient and well capitalised. It is committed to embedding a culture of compliance while developing products and services that support the economy being shaped by environmental, social as well as governance challenges.

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Liechtenstein

Due to the customs and Swiss Franc currency union, Liechtenstein is strongly linked to the Swiss economy. Generally, Liechtenstein's economy is on a moderate path to growth with optimistic outlook and Liechtenstein's AAA-rating with stable outlook was confirmed by Standard & Poor's in June 2019. With an increase of 8.5%, the direct exports of goods from Liechtenstein companies have recovered for the most part after the sharp decline in the past year, which was highly affected by the revaluation of the Swiss Franc in 2015. Employment grew by 2.6% in 2018. The average unemployment rate fell to 1.8%.

By the end of 2018, there were 13 fully licensed banks operating in Liechtenstein. Five of them are subsidiaries of Swiss, Austrian, Luxembourgish and Chinese institutions. The banking centre recorded one M&A transaction between a Liechtenstein bank and a smaller subsidiary of a Swiss banking group. The others are Liechtenstein banks whereas the LGT Group is the largest private banking group owned by the princely family and the LLB Group listed on the Swiss Stock Exchange but majority-owned by the Liechtenstein government.

Owing to the very limited home market, the Liechtenstein banks are very internationally-oriented and have representations in more than 20 countries. Their activities traditionally focus on private banking and wealth management. They do not engage in investment banking and carry comparatively low risks. However, smaller banks, in particular, are engaging more in other business areas, such as Bank Frick which has built up a high level of competence in e-commerce/payment solutions as well as in blockchain banking over the last few years.

Liechtenstein is also affiliated to the Swiss payment systems and, together with Switzerland, switched in 2018 to the new ISO 20022 payment transaction standard. Liechtenstein is also a SEPA participant.

Due to the narrow business model of the Liechtenstein banking sector, the lending business focuses on mortgages, which increased by 2.5% compared to the previous year, and Lombard loans. Total loans are stable around CHF 30.0 billion and amounted to 44.2% of total assets, whereas the share of both loan types is more or less equal. Residential mortgages amount to 79% of total mortgages and are mainly secured by Liechtenstein or Swiss real estates. The average LTV for residential mortgages is less than 50%. Commercial loans do not have a significant share of the loan portfolio of Liechtenstein banks.

Deposits were stable at CHF 42.6 billion and domestic households account for more than 35 % of total deposits. Sustainability has always been at the core of the Liechtenstein financial centre's values and culture and is a key pillar of its long-term strategy. LGT is one of the pioneers in this area, not just in Liechtenstein but worldwide as well. Consequently, the positive trend towards sustainable investments from the last years onwards has persisted, and the percentage of sustainable investments has continuued to increase.

A demanding environment encompassing negative interest rates, volatile financial markets and costly regulation continued to challenge the sector further on. But despite the uncertainties and the restraint shown by investors, the banks attained stable net profits and assets under management (AuM). To sum up, the banking sector can again look back on a successful year in 2018.

The consolidated AuM reached a new peak once again (up 3.7% to CHF 305.2 billion) whereas in Liechtenstein a slight decrease of -5.8% to CHF 159.1 billion was recorded particularly due to the negative market impact. Even more important is the fact that net new money could be attracted, CHF 3.8 billion by Liechtenstein banks and CHF 33.4 billion on consolidated level. Total balance sheet assets increased to CHF 67.3 billion (up 2.3%).

The result from normal business activity rose by 17.6% to CHF 390.3 million compared to the previous year.

Liechtenstein banks are distinguished by their financial strength and stability. They have solid and high-quality equity capital resources with an average core capital (CET 1 ratio) of around 20%. The high average liquidity coverage ratio (LCR) of more than 170% shows that security and stability are very important for the banks.

The national economic significance of the financial centre is disproportionately high, compared with other countries. It is one of the central pillars of Liechtenstein's national economy. The financial sector contributes a total of 28% to Liechtenstein's GDP and 16% to the workforce. The banks continue to be important employers. More than 150 full-time positions were created in 2018. The banking industry employs a total of 2,125 people (full-time equivalents) and offers 57 apprentices an attractive entry into their careers, with a share of women exceeding 50%. With a stake of around 43% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more highlighted.

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Lithuania

The Lithuanian economy maintained growth momentum: real GDP grew by 3.6% in 2018 (3.9% in 2017). Investment activities of enterprises at the beginning of 2017 were the main factor that stimulated stable growth in banks' credit portfolios. Energy, transport and industrial companies were most pro-active in implementing investment projects.

Growth is expected to slow down. The Lithuanian Ministry of Finance predicts 2.6% growth in GDP in 2019.

Four banks and ten foreign bank branches are operating in Lithuania. Three specialised bank licences were issued at the end of 2018. The Lithuanian banking sector is dominated by the subsidiaries of large Scandinavian banks. The two largest banks – SEB, Swedbank – are owned by their parent banks in Sweden. The other three banks, AB Šiaulių bankas, UAB Medicinos bankas, and AB "Citadele" bankas, are considerably smaller and are owned by groups of local and foreign investors. Among the foreign banks' branches, Scandinavian capital also dominates. There are 65 credit unions united by the Lithuanian Central Credit Union. The Lithuanian government has no ownership stake in the banking sector.

Digital banking gathers pace. New or improved digital services were introduced for consumers in 2018 to save their time and make it easier to manage their finances. Instant payments became available for the majority of bank customers in 2018.

The banking sector is increasing its efficiency. The number of bank employees decreased by 22% in 2018.

Funding conditions remain very supportive, as final interest rates on loans for both non-financial enterprises and households remain among the lowest in the euro area. The favourable economic situation contributed to a growing credit portfolio. The annual increase in the loan portfolio was 6.6% in 2018. The household loan portfolio grew by 8% and consists predominantly of housing credits. The rise in housing affordability also supports the private sector's lending. Corporate loan portfolio grew by 8%.

Moreover, loan quality keeps improving, with the non-performing debt ratio dropping to 2.4% in 2018 (3.1% in 2017) of the overall loan portfolio. Despite the low interest rate, the value of customer deposits in banks increased by almost 3% in 2018. The capital adequacy ratios of Lithuanian banks exceeded the established standards, and now they are one of the highest in the EU. The profitability indicators have also remained sustainable, enabling banks to function stably and fulfil their natural function – to finance the economy and stimulate economic growth.

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Luxembourg

Luxembourg's international banking centre has a long-standing expertise in financial services, ranging from international private banking and wealth management, retail banking, corporate finance to fund services and depositary banking. Luxembourg is leveraging its unique strengths and attributes to position itself as a leader in emerging fields such as innovative financial technologies ('Fintech') and sustainable finance.

Growth in Luxembourg was close to 3% in 2018, mostly carried by strong consumer spending. Employment has grown by 3.7% year-on-year in 2018. Employment in the financial sector grew by more than 4.1%.

The banking sector is the main economic engine. In 2018, it has one third of the Gross Domestic Product (GDP), 11% of employment and 21% of fiscal revenues.

Luxembourg features the highest banking internationalisation rate in Europe (94.8%) with more than one third of the 136 banks coming from outside the European Union. These banks are operating an expanded business model on a cross-border basis, using an EU passport for providing financial services across Europe, particularly in private and corporate banking as well as in asset servicing.

Banks in Luxembourg have sufficient own funds to face potential difficulties with a CET1 ratio of 25,1%. With 25,9% solvency ratios remained well above the thresholds and banks show a high level of capitalisation.

Online banking and digital payments boast high utilisation rates with 96% for the 25-34 age range making use of online banking. Also, debit or credit card transactions have accounted for 63% of the total payments in volume in 2018.

Loans increased by 6.7% year-on-year, thanks to the contribution of the retail banking, corporate banking and private banking sectors. At the same time, the evolution of deposits is stable. On a general basis, deposits are still higher than loans, ensuring a robust stability and a high liquidity in all credit institutions.

Over the last years, Luxembourg's stable and diversified financial ecosystem has facilitated the establishment of new banks incorporating their European hubs in Luxembourg, including the seven largest Chinese banks – Bank of Communications, the China Merchants Bank, the Agricultural Bank of China, the Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank and the China Everbright Bank. Chinese banks led the sector in terms of year-on-year balance sheet growth in 2018.

Luxembourg's commitment to sustainable finance has created an ideal environment for mobilising international capital for green projects. Luxembourg is a frontrunner in pushing for the most advanced solutions, testing and implementing new approaches to ensure that sustainable finance products are widely available.

In October 2018, Luxembourg's Government, together with the United Nations Environment Programme Finance Initiative (UNEP FI), officially launched the Luxembourg sustainable finance roadmap.

According to the first sustainable finance survey conducted in 2017 by the Luxembourg Bankers' Association among the country's foremost financial institutions:

- 85% of financial institutions already incorporate social and environmental elements in their vision

and strategy and are signatories of global or local sustainability initiatives;

- More than 65% of respondent banks offer green finance products to their clients;
- The main drivers behind the adoption of sustainable finance practices are deemed to be brand recognition (76%), stakeholder (64%) and shareholder requirements (64%);
- Banks are experiencing a growing demand from clients for green products (28%)

Building on its strong and longstanding track record characterised by stability and international outreach, Luxembourg is expanding its leadership in areas such as e-commerce, e-payment and fintech which are currently reshaping the global financial sector.

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Malta

In 2018, economic growth in Malta remained robust, with real GDP growth at 6.6%, nominally lower than the 6.7% registered for 2017. The expansion remained largely underpinned by the services sector, although the manufacturing and construction sectors also posted an increase in gross value added. However, during 2018, exports of goods and services increased by 2.1%, compared with 5.6% in 2017. The seasonally adjusted unemployment rate published by Eurostat averaged around 3.8% in 2018, while labour productivity improved by a further 0.9%. Meanwhile, the situation in public finances improved further, with the general government debt falling to 45.7% of GDP and a budget surplus equal to around 3.6% of GDP. Notwithstanding the fast pace of expansion and tight labour market, the annual inflation rate based on the Harmonised Index of Consumer Prices remained moderate, averaging 1.7% in 2018. Although higher than the 1.3% registered in 2017, inflation remained contained from a historical perspective.

Over the past two decades, the banking sector in Malta has grown from four retail banks serving the local population to 24 licensed banks as at the end of 2018, only three of which are Maltese majority-owned. The ownership of the other banks originates from various EU and non-EU jurisdictions, including Austria, Australia, Belgium, Greece, Kuwait, Turkey and the United Kingdom. As such, 65.7% of the banking sector's total assets of around € 44.4 billion are foreign-owned.

The sector is very diverse in terms of inter-linkages with the domestic economy, and can be split into three groups, according to the extent of linkage with the Maltese economy: core domestic banks; non-core domestic banks and internationally-oriented banks.

There are six core domestic banks, whose assets (around €24.1 billion) represented 196% of Malta's GDP. The core banks employ 82% of the sector's workforce numbering around 4,688 employees. Two of these banks are the local market leaders, holding around 74% of this group's assets, and operating 64 of the 96 core bank branches in the Maltese islands. The core banks exercise a conservative business model consisting mainly in the raising of deposits and the granting of loans mainly to Maltese residents. Resident deposits and loans within this sector increased by 6.6% and 6% respectively in 2018.

The core domestic banks rely predominantly on resident deposits for their funding, and have a stable deposit base, thanks to the high propensity to save by Maltese households. Their loan-to-deposit ratio increased from 59% in 2017 but remained low at around 61%. On the asset side, over 85% of their loans are to Maltese residents, with the banks applying prudent lending norms and loan-to-value ratios, as well as a cautious valuation of collateral. Their investment portfolios also continued to be widely diversified in well-rated securities.

Overall, the core domestic banks are characterised by a sound capital base (Tier 1 capital adequacy ratio of around 15.2%), high liquidity and a healthy profitability. These positive features were acknowledged in the EU Commission's Country Report Malta 2019.

There are five "non-core domestic banks", whose assets of €2.6 billion represented around 22% of Malta's GDP. These banks undertake some business with Maltese residents, but not as their core activity. As such, the linkages with the domestic economy remained limited, with resident assets and resident liabilities each accounting for less than one-fifth of the banks' balance sheet size. With a Tier 1 capital adequacy ratio well

in excess of the required numbers, these banks have a good shock-absorbing capacity to cover a potential deterioration in asset quality. Considering also their limited exposure to the domestic economy, these banks are not deemed to pose a threat to domestic financial stability.

Thirteen internationally-oriented banks, which are mainly subsidiaries and branches of large international institutions, have almost no links to the domestic economy. Their combined assets of around €17.5 billion, represented around 142% of Malta's GDP. They fund themselves mainly through the wholesale market or through their parent banks, and deal mainly with intra-group activities. Overall, this group is also very well capitalised, has strong liquidity and is profitable.

The Malta Financial Services Authority (MFSA) is the sole regulator for all banking, investment and insurance business carried out in or from the Maltese islands. The Central Bank of Malta is primarily responsible for maintaining price stability through the formulation and implementation of monetary policy. It is also responsible for the promotion of a sound financial system and orderly capital markets. A Joint Financial Stability Board, set up between the MFSA and the Central Bank of Malta, focuses on macro prudential aspects of financial stability, extending its remit to the entire financial sector.

During 2018, the IMF conducted Financial System Assessment Program (FSAP) at the government's invitation to analyse the country's financial system within the context of the local regulatory and supervisory framework, as well as within the broader European framework. In February 2019, the IMF published a Financial System Stability Assessment Report summarising the findings.

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The Netherlands

The Dutch economy is characterised by its connectedness to the international economy. The performance of the Dutch economy has been particularly strong in 2017 and 2018. The global trade slowdown, Brexit and the new age of protectionism slowed the Dutch economy. The expected GDP growth for 2019 is expected to reach a potential growth rate of 1.5%.

The growth rate of consumption of goods and services is expected to continue to drive the economy. A tight labour market goes hand in hand with a low unemployment rate. This contributes to higher wage growth, and expansionary budgetary policies, by the government, contribute to the growth of real disposable incomes. The Dutch housing market is expected to contribute positively to consumption growth. Housing prices are expected to grow, albeit at a more moderate pace than in recent years.

The high growth of the Dutch economy and the high level of taxes and social contributions have added to a favourable development of the government debt level. The total government debt will be far below the Maastricht criterion of 60%, with a projected debt level of 49% of GDP in 2019.

The Dutch banking sector is characterised by its relatively large size to GDP. Its assets were equivalent to 315% of GDP in 2018, down from 530% of GDP in 2007. The decline in balance sheet size, combined with developments such as digitisation and cost reduction programmes, have led to net decline of employment in the banking sector. In 2018, about 70,000 people were employed in the Dutch banking sector (based on NVB members).

The Dutch banking market is relatively competitive. Large Dutch banks are internationally active in order to serve the open and export-oriented Dutch economy.

The five largest Dutch banks account for about 85% of the balance sheet total. However, with the European banking union being phased in, the relevant market gradually becomes a truly European market. The ownership structure of the three major banks is diverse. The largest bank is publicly listed, the second largest is a cooperative institution and the third largest is partly state-owned. The capitalisation of Dutch banks is good. Cost reduction and digitalisation drive profitability. However, new lenders have entered the Dutch market for mortgages and roughly 50% of new mortgage loans are issued by non-banks.

Card payments are increasing each year at the cost of cash payments. Since 2015, the total amount of card payments is larger than cash payments. This development is expected to continue in the future. Contactless payments by card are increasing. Amongst youth, payments between them are primarily initiated by mobile applications. The Netherlands will be one of the first countries introducing instant payments in 2019.

Banks play a vital role in the financing of Dutch companies, especially SMEs. The total amount of outstanding loans has decreased in recent years, mainly as a result of a lower demand for loans. The percentage of non-performing loans is low and the Netherlands ranks among the best among its EU peers. Flexible forms of finance such as leasing and factoring have become more popular, but in terms of volume compared to outstanding bank loans, the use of alternative forms of finance is limited. Banks increasingly combine different forms of finance.

The total amount of outstanding debt to non-financial companies in the Netherlands equals approximately €260 billion, of which almost 50% is loaned to SMEs. About 10% of the outstanding amount are loans of

less than €250,000. Acceptance criteria have been eased over the last year; eight out of ten loan requests are currently accepted.

Dutch banks have committed to supporting and stimulating the transition to a sustainable economy. A group of banks and other financial institutions have developed a methodology to assess the carbon emissions related to the institutions' core activities of financing and investment. Some banks have set quantitative targets to decrease their climate impact. Dutch banks are also working on fine-tuning their services to green businesses, thus supporting the development of a green economy. They have contributed to the development of a toolkit for businesses, helping them to increase the ability to finance green business models.

The Dutch supervisor stated in its annual report 2018 the healthy shape of the Dutch banking sector is in. The capital position of Dutch banks has continuued to improve in recent years. Core Equity Tier 1 capital has almost tripled for the three largest banks since the financial crisis.

The banking sectors' profitability has somewhat rebounded in comparison to previous years with a return on equity in the sector of 9% in 2018, according to the Dutch central bank. Low interest rates remain a challenge, in combination with increased regulatory burdens and the need for investments in digitalisation and innovation.

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Norway

The economic activity in the Norwegian economy has been positive in recent years after the downturn in the petroleum sector in 2014 due to the fall in oil prices. Unemployment has decreased and is currently at a low level (registered unemployment at 2.3%). Growth has been stimulated by the continuance of expansionary monetary and fiscal policy. However, given the increase in activity and inflation, the Central Bank of Norway has on two occasions hiked the key policy (deposit) rate from the bottom level of 0.5%. The current level of the key policy rate is 1% and the central bank expect an additional hike during the next six months.

The Norwegian banking sector is characterised by a few very large commercial banks, some regional banks and several small savings banks. At the end of 2018, the Norwegian banking sector consisted of 125 banks. In addition, there were 14 subsidiaries of foreign banks operating in Norway. The market share of the branches of foreign banks were 21% and 38% in the retail and domestic corporate markets, respectively.

At year-end 2018, the aggregate assets of the banking sector (including foreign entities) amounted to around €645 billion, corresponding to approximately 180% of Norway's total GDP. However, given the large presence of foreign banks, total assets relative to the size of the economy are noticeably lower when only regarding Norwegian banks. The financial intermediation sector contributes approximately 6% of GDP and employs around 2% (50,000 people) of the total labour force.

The Norwegian banks' return on equity was on average 11.5% in 2018. Losses amounted to just 0.08% of gross lending. Losses declined compared to 2017 due to losses in the petroleum sector being lower than estimated among the largest banks. The capital adequacy in Norwegian banks reached 16.2% by the end of 2018 and the leverage ratio was on average 7.9%.

As more and more people are using banking services online, the number of physical branches has decreased significantly over the last several years. Mobile payment solutions have been well received by Norwegian households and are becoming increasingly popular. More digital banking has given the banking sector large productivity gains and hence lower costs. In 2018, the cost/income ratio in Norwegian banks was on average 45.9%.

The most important sources of funding are deposits and covered bonds. Large banks have a considerably larger share of market-based, international funding than smaller banks, which base their operations largely on depository funding. Bank deposits are guaranteed by the Norwegian deposit guarantee scheme and have thus proven to be a stable source of funding, also during the financial crisis. The guarantee provided by the Banks' Guarantee Fund covers up to NOK 2 million (approximately € 200,000) per depositor per bank but may be changed in the future, to the equivalent of €100,000, to align with the EU. The deposit-to-loan ratio (deposits as a share of gross loans to customers) for Norwegian parent banks was 93% at year-end 2018. The high level is due to the transfer of mortgages to separate credit institutions (with the purpose of issuing covered bonds). When including these loans, the deposit-to-loan ratio was 56%.

Given the VAT exemption for financial services, a financial tax was implemented in Norway in 2017. The tax comprises two elements. The first is a payroll tax of 5% and the second a maintained tax rate at 25%, i.e. an extra tax of 3 percentage points relative to other corporates (22% tax rate in 2019).

The Norwegian financial sector supports the environmental, social and governance agenda and is involved in, or, has launched several initiatives in this area. The Roadmap for Green Competitiveness in the Norwegian Financial Sector, developed by Finance Norway, is a key initiative setting the vision of a profitable and sustainable Norwegian financial sector in 2030. The roadmap includes seven general recommendations for the industry in addition to several specific recommendations for banks, insurers and investors.

Norwegian banks also strongly support the progress in the stability and governance of the European financial sector, as well as the increasing harmonisation of regulation and supervision throughout Europe, to ensure a level-playing field and improve the functioning of the market economy. Norway is not a direct member of the EU but participates in the EU's internal market under the European Economic Area Agreement (EEA). According to this agreement, Norway is obliged to implement all EU directives and regulations that relate to financial institutions and markets, such as the CRR/CRD, MiFID, Prospectus Directive, Solvency II etc. This ensures Norwegian financial institutions the same rights and obligations as institutions established within the EU.

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Poland

Poland is the largest economy in Central and Eastern Europe. According to Eurostat and the European Commission, its economy has been one of the fastest growing among the EU Member States. Significant domestic demand drove economic growth to 5.1% in 2018, the fastest pace in more than a decade. Favourable labour market developments and strong consumer confidence are key factors supporting private consumption. These trends, with quite strong credit demand, makes Poland a potentially favourable destination for development of the banking sector. It has a competitive landscape (the five biggest banks have about 50% share in the market), focused on domestic business and plays an important role in financing private households, SMEs and big infrastructure projects. Interest rates in Poland remain positive.

The Polish banking system is characterized by high stability and resiliences. The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego - KNF) is responsible for state supervision of the national financial market. The institution responsible both for operating the deposit guarantee scheme and resolution processes is the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny – BFG). The authority responsible for macro-prudential supervision is the Financial Stability Committee (Komitet Stabilności Finansowej – KSF), comprising the Polish National Central Bank (NBP), the Ministry of Finance, the KNF and the BFG.

At the end of 2018, the Polish financial landscape was made up of 32 commercial banks, 543 cooperative banks and 31 branches of credit institutions. In 2017, for the first time since 1999, the share of domestic investors in the sector's assets was higher than the share of foreign owners. At the end of 2018 it reached 54.1%. Domestic investors controlled thirteen commercial banks (eight banks were controlled by the State and five by private capital) and all cooperative banks.

Due to the requirements of the CRD IV package, and in reference to national regulations, the cooperative banks in 2018 had to make the final decision on the form of their activity: joining one of the two existing Institutional Protection Schemes or conducting business independently. Despite the large number of these institutions, their market share is estimated at around 7.3% of the sector’s total assets.

In 2018, the Polish banking sector’s assets totalled €442.92 billion. The value of the total balance sheet increased by 6.7% compared to the previous year. The size of the banking sector, relative to GDP, remains quite low in comparison to other EU economies (89.6% at the end of 2018) and this ratio remained unchanged last year.

The credit portfolio plays a dominant position in total assets (54.7% in 2018). During the last four years, faster growth has been observed in corporate banking than in retail. The problem of mortgages denominated in foreign currency is still under discussion, but this portfolio is diminishing every year. The prudent credit policy and good results of the Polish economy have allowed banks to maintain the non-performing loan ratio at a relatively low level (6.8%).

The year 2018 was characterised by rapid growth of household deposits, which represent 72% of all non-financial sector deposits. The ratio of non-financial sector deposits to GDP was estimated at around 54.7%. However, the share of long-term deposits is limited and term mismatch on the credit and deposit side is significant.

In 2018, Polish banks registered return on equity (ROE) of 8.3% and return on assets (ROA) of 0.80%. These results were close to those of 2017 (ROE: 8.5%, ROA: 0.78%). The main reason for these results was the high fiscal and prudential burden imposed on banks by European and local regulators. The banking tax, which came into force in February 2016, is a considerable burden for banks. It applies to selected financial institutions such as domestic banks and insurance companies, branches of foreign banks and insurance companies operating in Poland and consumer lending institutions. The tax does not cover investment funds, pension funds and small local credit institutions (with total assets below PLN 4 billion). The tax base comprises the assets of financial institutions and only Polish treasury bonds in banks' portfolios are excluded from taxation. The rate applied to the taxable base is 0.0366% per month (0.44% annually). In 2018 financial institutions paid around PLN 3.8 billion (€0.88 billion) as a banking tax. The fees paid to the deposit guarantee scheme and to the resolution fund are also significant burdens for banks. Neither the banking tax nor the above fees are deductible for income tax calculation.

The average total capital ratio in the domestic banking sector increased significantly. At the end of 2018 the ratio was 19.1%, and the Common Equity Tier 1 and Tier 1 capital ratios were estimated above 17%. According to the EBA, from the EU-wide stress test, held in 2018, two Polish banks achieved the best results (ranking first and third) out of all the participants.

At the end of 2018, 38.1 million clients had access to online banking services, whichmeans a 7% increase in comparison to the fourth quarter of 2017. The number of active users of banking mobile applications increased in last year by over 10% and amounted to 8.71 million.

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Portugal

In 2018, the Portuguese economy grew by 2.1% (0.7 percentage points less than in 2017). Private and public consumption rose more than in 2017, but domestic demand decreased its contribution to GDP due to a deceleration in investment. Net external demand had a more negative contribution as the deceleration in exports of goods and services was higher than that of imports. According to the 2019-2023 Stability Programme, GDP is expected to increase by 1.9% in 2019.

In the aftermath of the financial crisis and of the economic crisis that followed, the Portuguese financial system has undergone a very intense transformational process that resulted in significant achievements on all fronts: solvency, liquidity, asset quality and, more recently, profitability, as well as business model adjustments and governance improvements. The Portuguese banking sector is now more resilient and prepared to face potential adverse shocks. Core Equity Tier 1 capital (CET1) reached 13.2% in 2018 (versus CET1 of 7.4% in 2010). Liquidity stood at comfortable levels (loan-to deposit ratio of 88.9% versus 158.7% in June 2010; liquidity coverage ratio at 196.5%). Profitability improved (return on equity reached 7.1%) and non-performing loans (NPLs) fell by €24.6 billion since the peak in June 2016.

At the end of 2018, the Portuguese banking system comprised 150 institutions, 60 of which were banks (including 30 branches of foreign banks), 86 mutual agricultural credit banks and four savings banks. The number of bank employees stood at around 1% of the total active workforce, while the five largest banks accounted for 78% of total assets.

Total outstanding loans decreased 0.6% year-on-year, which may be an indication that deleveraging is nearing its end. Considering the domestic activity, loans to non-financial corporations (NFCs) fell 4.8% to €69.6 billion. In Portugal, SMEs represent a fundamental part of the business economy: according to the latest data, SMEs account for more than 90% of total NFCs and are mostly micro-enterprises (88.3%); they contribute 60.8% of the overall value added and 72.4% of the total labour force. In 2018, loans to SMEs, which correspond to 80.2% of total corporate loans, decreased 5.6% year-on-year to €55.4 billion. Furthermore, SMEs' overdue credit dropped significantly (down 35.7% year-on-year or €3.2 billion), with the corresponding ratio standing at 10.4% (versus 15.2% in 2017), mostly fuelled by the performance of micro companies. Loans to households rose by 0.5%, with loans for consumption increasing by 10.5% and loans for house purchase decreasing by 0.2%.

However, the decline in the value of outstanding loans is strongly related to the sector efforts to reduce the high NPL stock, as the performing component of the loan portfolio has been increasing. In the case of loans to NFCs, the adjusted annual rate reached 1.71% at the end of 2018.

Ambitious strategies have been implemented to reduce NPLs and remarkable progress has been achieved: the NPL ratio has decreased significantly after reaching its peak level in June 2016 (from 17.9% to 9.4%), while the NPL coverage ratio increased from 43.2% to 51.9%.

Customer deposits rose by 3.3% year-on-year and reinforced their position as the main source of bank funding (73.8% in 2018 compared with 72.3% in 2017).

The sector recorded an income of €1.3 billion (versus €228 million in losses in 2017) largely explained by the substantial reduction in impairments.

Digital transformation is a priority for the Portuguese banks and strong progress has been achieved by the sector. Internet banking use has increased from 38% in 2010 to 52% in 2018. Moreover, 57% of internet banking customers use mobile networks and 65.3% of current accounts have online access. The number of payment cards issued totalled 21.7 million and the amount of online purchases represented 5.7% of card purchases, which compares to 5.9% in 2017.

Portugal is strongly committed to promoting a more efficient, sustainable and inclusive economy based on lower consumption of natural and energy resources. The Portuguese government set ambitious medium and long-term targets for energy consumption, renewable energy and carbon neutrality. Tax incentives, regulatory measures and special lines of financing are some of the measures that have been implemented. Some of the most important financing initiatives already in place are: Compete 2020 (Operational Competitiveness Programme), PO SEUR (Operational Programme for Sustainability and Efficient Use of Resources), PO Regionais (Regional Operational Programmes), IFRRU 2020 (Financial Instrument for Urban Rehabilitation and Revitalisation) and other lines of funding under Horizonte 2020 and LIFE (L'Instrument Financier pour l'Environment). In addition, credit institutions are providing financing solutions targeting energy efficiency, renewable energy, electric vehicles and other sustainable investments.

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Romania

In 2018, the banking sector had a positive development, brought about mainly by the favourable macroeconomic framework, which led to an acceleration of lending. In 2018, the GDP went up by 4.1% due to consumption demand. GDP growth is forecasted at 3.5% to 3.8% in 2019.

The inflation rate on consumer prices rose to 4.6% in 2018. During 2018, both the structural budget deficit and the trade deficit increased. The unemployment rate continued its downward trend and was close to historical lows at the end of 2018 at 3.3%. However, Romania's labour market is vulnerable to high emigration which has reached a worrying level of 15% of the country's population, or 25% of the active population.

Romania's fiscal standing is sustainable considering that the budget deficit was 3% of GDP and that the country's public debt was 35% of GDP. During 2018, the balance of payments' current account had a deficit of €9.4 billion, according to the National Bank of Romania data.

At the end of 2018, the Romanian banking sector included 34 credit institutions: two banks with full or majority Romanian state capital, four credit institutions with majority domestic, private capital, 21 banks with majority foreign capital and seven branches of foreign banks. About 75% of the Romanian banking sector assets were held by institutions with foreign capital in 2018, a downward trend compared to the 91.3% registered at the end of 2016. At the end of 2017 the banks with Austrian capital had a market share of 25%, followed by the banks with French and Dutch capital (13% market share each), Italian (10%) and those with Greek capital (9%). Banks have adjusted their employee number in the sector to 55,425 persons, while the number of bank outlets shrank to 4,500 at the end of 2017.

The national banking sector maintains its soundness, with the solvency ratio at 20.71% in December 2018, much higher than the 8% average recommended, and over the EU average, while return on assets (ROA) was 1.55%. In the last ten years, the annual average ROA was only 0.44%. As regards return on equity (ROE), the multi-annual average of ROE was only 3.2% in the period 2008-2017. The banking sector's assets, which were €96.7 billion, and which show the size of the funding granted to the economy, increased 30 times in the last two decades.

The non-performing loan rate shrank by about three quarters in the last four years to 4.96% in December 2018.

The annual growth of non-government credit was 7.9% for the year 2018 to 251 billion leu (€54 billion). The loans-to-deposit ratio dropped to 73.64%. Domestic saving went up by 9% during 2018, increasing to €70 billion.

The year 2018 brought criticism and negative positions regarding the Romanian banking sector from high-level government and political officials. The banking community has pointed out that although a tax on financial assets would directly affect banking institutions – they are to pay this tax with their capital – the final cost will be paid by society in general, with a strong negative impact upon consumption, output and investments and, implicitly, with effects upon the state budget in the future. In effect, via such measures,

Romania's economy becomes vulnerable to potential external shocks such as international crises. In the last ten years, shareholders have contributed with over €4 billion to banks' capital in Romania.

The uncertain and unpredictable legal framework continues to be, for the third year in a row, the most important factor with a potentially negative systemic impact affecting the financial industry. Credit is one of the few instruments through which Romania can close the gap compared to the European Union. Romania, 12 years after its integration into the EU, is the European state ranking last in the EU as regards the access to and usage of banking services, financial intermediation, the level of financial literacy and - with a few exceptions - economic welfare. Financial intermediation (the ratio of non-government credit to GDP) stands at 26% and the access to and usage of banking services at 58%. In Romania, GDP per capita expressed in the purchasing power standard reached 63% of the EU average in 2017. The banking industry in Romania intends to contribute in the future to the sustainable development of Romania as well to the Romanian society in general.

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Slovakia

In 2018, Slovakia continued to enjoy strong economic growth, increasing by 4.1%. The main drivers were private consumption and investments. Private consumption was supported by the improving labour market situation and strong household credit growth. Investments benefited mainly from the expansion in the automotive sector. Net exports had a slightly negative impact on GDP growth.

The deficit of the general government is less than 1% of GDP and the government expects a balanced budget in 2019. Public debt last year declined to 48.9% and remains below the first domestic debt brake thresholds (50%). Thanks to the strong economic environment, the unemployment rate fell for the sixth consecutive year to an historical low (6.6%) and average real wages grew by 3.6%. The annual inflation rate increased significantly to 2.5%. Its acceleration was caused mainly by food prices and partly also by energy prices and the prices of services.

The Slovakian banking sector consists of 26 financial institutions with banking licences. Most of them are universal banks, focused on retail and corporate banking. Four of them are specialised banking institutions (three building societies and a state-owned development bank). Since privatisation ended in 2001, most of the banks in Slovakia are controlled by foreign entities, mainly banking groups from Austria, Italy and Belgium. Only four banks are fully controlled by domestic investment groups (three banks) or government (one bank). The Slovakian banking sector is concentrated within the hands of three major players (Slovenska sporitelna, VUB Banka and Tatra banka) who control more than 50% of the banking assets. Despite this concentration, the market share of small and medium-sized banks has slightly increased in recent years.

Slovak banks are among the leaders in the use of new technologies in day-to-day banking e.g. contactless cards, contactless mobile payments and peer-to-peer payments. Members' banks, in cooperation with the Slovak banking association, prepared a common API (application programming interface) standard for communication between the banks and third-party providers based on PSD2 requirements. The Slovakian banking industry has 1,174 branches, 2,778 ATM and more than 45,000 POS terminals. Since 2008, the number of employees decreased by 4% to 19,504 at year-end 2018.

In comparison to the national GDP, the banking sector is one of the smallest in the EU. Funding of Slovakian banks is based primarily on the domestic clients' deposits. The loan-to-deposit ratio has been growing for several years. The volume of loans last year exceeded the volume of deposits, for the first time, mainly due to growth in loans. Favourable economic conditions have led to an increase in retail and corporate deposits (both rising by 7%).

Retail loans have been dominating the domestic lending market and Slovakia has one of the highest growth rates in retail loans in the EU. The outstanding amount of housing loans rose in 2018 by 11.4% and consumer loans by 12.5% year-on-year. The main reasons are low interest rates, rising disposable incomes and growing competition. According to the regulator, rapid growth in household indebtedness could be one of the principal risks to the stability of the Slovak financial sector. The household debt-to-income ratio in Slovakia is one of the highest in the central and eastern European regions. In response, the central bank used macro-prudential measures to introduce tighter loan-to-value ratios and a systemic risk buffer in

order to prepare to introduce a new indicator: the debt-to-income ratio. The main objective of these measures is to reduce retail credit growth.

Stable economic growth and improving sentiment also provided a significant boost to firms' demand for loans. The outstanding amount of corporate loans rose by 5% year-on-year. The lending situation for SMEs has also improved. The outstanding amount of corporate loans rose by 4.5% year-on-year.

Due to retail credit growth, most of the Slovak banks have remained profitable, but their outlook for the future is worsening. The environment of low interest rates has affected the interest rate margin and interest rate income. The special bank levy has also had a negative impact on banking sector profits. In the last few years, most of the net profits have supported the capital bases of Slovak banks. Total capital adequacy ratio increased on average to 18.43%, with the lowest individual level at 14.36%. Slovakia has some of the most stable and soundest banks in the EU. According to the World Economic Forum's Global Competitiveness Report 2018, Slovakia has the third soundest banking sector in the euro area.

Banks in Slovakia play an active role in financial education. There are many programmes supported by banks or the bank association. One of them is the Economics Olympiad for high school students.

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Slovenia

The Slovenian economy grew by 4.5% in 2018, with prospects for solid though somewhat slower growth rate in 2019 and 2020 when forecasted rates are expected to moderate at 3.1% and 2.8% respectively. The contribution of domestic demand to growth is expected to dominate the net exports effect, which is forecasted to turn negative in 2019 and 2020. The most important components of growth are projected to be investments, rising by 7.7% and private consumption up 2.9% in 2019, supported by a higher disposable income and employment. Despite the constrained export growth conditions, the current account balance is projected to grow at roughly 3% annually, with a surplus at roughly 6% of GDP. The fiscal position of the country is still improving, since the general government balance is expected to reach a surplus of 0.7% of GDP and general government debt is expected to further decrease to 65.9% of GDP in 2019.

As of year-end 2018 there were 12 commercial banks, three savings banks and two branches of foreign banks operating in the Slovenian banking sector. The total assets of the banking system increased by 2.2% in 2018 and reached €38.8 billion, equivalent to 84.4% of GDP, but still €13.2 billion short of the total banking assets volume at the end of 2009, when the banking sector assets represented 146% of GDP. While the number of banks in the market did not change in 2018, the state-owned market leader Nova Ljubljanska banka (NLB) was partially privatised through an IPO in November 2018. This means that only 35% of the shares of NLB are still held by the state, with the prospect of 10% more shares being sold by the end of 2019 as part of the restructuring programme. The privatisation process for Abanka has been initiated but is not yet completed, while the deadline is expected to expire by the end of 2019. At the beginning of May 2019, Société Générale announced a withdrawal from the market by selling the local subsidiary SKB bank to the Hungarian group OTP, which is going to become a new player in the market. Further consolidation is expected in the Slovenian banking market, yielding fewer banks and very likely increased market concentration.

Strong economic growth and positive sentiment were reflected in the sustained credit activity of banks throughout 2018 with a slight but not substantial slowdown in Q4 2018. Nevertheless, the overall growth rate of loans to non-bank borrowers was 3.3% in 2018. Loans to non-financial corporations (NFCs) grew by only 2.2%, while the growth of loans to households was significantly stronger at 7%. However, consumer loans grew by 11.8% in 2018, while housing loans grew by 4.7%. Consequently, loans to households represented 26% and loans to NFC, 21.8% of total assets at year-end 2018, which differed substantially from the proportions recorded in 2008, when loans to households and NFCs amounted to 15.8% and 42.3%, respectively, of total assets. Banks successfully restructured their assets and improved the quality of their exposures. The process continued throughout 2018 as banks managed to further reduce their overall non-performing exposures (NPEs) to 4.0%. The trend also carried into the beginning of 2019 when the NPE ratio decreased further to 3.7%.

On the deposit side the influx of deposits continued in 2018 as non-banking sector deposits increased by 5.3%. Household deposits, with 6.8% growth, was the fastest growing segment, while growth in NFC deposits slowed to 6.6%. Household deposits accounted for an impressive 48.3% share of total liabilities

and together with NFC deposits (17.5%), government deposits and deposits of other financial institutions, total deposits all together represented 74.7% of total banking sector liabilities.

The profitability of banks increased for the fourth consecutive year since 2014 with return on equity of 11.09% in 2018. The current profitability of banks is beneficially impacted by the quality improvement of the banks' credit portfolios and a net release of impairments and provisions. On the other hand, there is a persistent long-term trend of decreasing net interest margins which dropped from 4.9% in 2000 to 1.8% in 2018, and resulted in a gradually declining share of net interest income in the gross income of banks. As a result, banks are trying to enhance non-interest income, which in 2014 represented roughly one-third and in 2018 was slightly more than 42% of gross banking income in the banking system. The changing income structure can also be considered as a reflection of the ongoing transformation of the business models in Slovenian banks.

The banking system is well capitalised, although capital adequacy differed among banks. The Core Equity Tier 1 capital ratio for the banking system stood at 20.2% in Q3 2018, while the same ratio was only 12.9% for small domestic banks and 25.6% for the group of large domestic banks. Currently, most of the banks are able to maintain a relatively strong capital position due to the potentially retained earnings that could be generated through the advantageous performance of the banking system in 2018. The expected consolidation processes and potential cost savings in the banking system should enhance the robustness of the banking sector in the future.

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Spain

The economic growth of the Spanish economy in recent years has continued in 2018, allowing GDP to grow by 2.5% over the year, consolidating an environment of moderate growth. Even though Spain was not immune to the external shock, the dynamism of domestic demand offsets the downturn of the external situation. Private consumption has continued to exhibit notable strength, against a backdrop of continuing swift job creation, increased purchasing power as a result of lower inflation, a budgetary stimulus to household income and a decrease of the rate of saving.

The current expansionary phase of the Spanish economy is expected to continue in the medium term. Nevertheless, exports are not expected to increase strongly due to the international context and geopolitical tensions and the lack of economic reforms and political uncertainty in Spain, which might dampen the dynamism shown by domestic demand. After growing by 2.2% in 2019, GDP is forecast to grow by 1.9% and 1.7% in the following two years.

The Spanish banking sector, in 2018, is composed of twelve banking groups, representing more than 90% of the industry, with 52 private banks, two saving banks and 62 cooperative banks. Trends observed in previous years, namely low interest rates and stagnation of household and SME lending, continued in 2018. However, Spanish banks are making a significant effort to clean up their balance sheets and to strengthen their capital ratios at a faster rate than that required by the Basel III reform.

In terms of capital, the equity-to-assets ratio was, in December 2018, and on a solo basis, above 10% for the third consecutive year. Concerning consolidated regulatory capital ratios, Spanish banks fully loaded Core Equity Tier 1 (CET1) ratio, reached 11.5% at the end of 2018, increasing nine basis points since 2017. The results of the EBA stress test showed that, in the baseline scenario, Spanish entities would present an increase of 230 basis points of CET1 in 2020, the highest of all Member States and almost double the average of the EU (104 basis points).

Regarding profitability, and according to EBA data, Spanish return on equity continued to increase, from 7.05% in December 2017 to 8.37% in December 2018, with an efficiency ratio of 49.6%. Meanwhile, the non-performing loan ratio continues its downward trend, decreasing from 4.53% in 2017 to 3.74% in 2018.

On the bank's balance sheets, the total value of credit increased slightly, core credit to SMEs and households increased from €272 billion a year in 2017 to €293 billion in 2018. Similarly, deposits held by Spanish banks increased from €1,018 billion to €1,061 billion during 2018.

In order to complete the macroprudential framework in the country, Spanish financial regulatory authorities were authorised to use new instruments such as limits to sectoral concentration, or, limits and conditions on lending. In addition, the Spanish government approved, at the beginning of 2019, the creation of the Spanish Macroprudential Authority. Its main objective is to monitor and analyse possible systemic risks, as well as to issue opinions and publish warnings about any identified systemic risk that could affect the country's financial stability.

Spanish banks keep adapting their systems to incorporate new digital and payment technologies. A clear example in the payments framework is the person-to-person (P2P) instant mobile payment system, known

as BIZUM, developed as a consumer-friendly technology based on a proxy database that obtains clients' IBANs directly from their mobile numbers. Added to that, banks have introduced the SCTInst processes and instant payments have become a common payment method available to all Spanish customers, representing as much as 10% of the regular SEPA Credit Transfer transactions. Furthermore, Spanish banks are swiftly introducing optimal and safe solutions to open accounts to third-party providers for payment initiation and account information services, according to PSD2 requirements.

The Spanish Banking Association in collaboration with other Spanish financial associations, launched a Responsible and Sustainable Finance Centre (FinResp), with the purpose of promoting and accelerating the accomplishment of the financial commitments linked to the Sustainable Development Objectives promoted by the United Nations. FinResp aims to help Spanish SMEs address their difficulties and needs to comply with the requirements of upcoming laws for energy transition and climate change. It also encourages the creation of networks for the exchange of best practices among companies and countries, promoting the design of innovative products and services in this field.

In 2018, there was a significant consolidation of green, social and sustainable bonds issuances in the Spanish capital market. Spain stands as the fourth market for this type of bonds by volume (€5.8 billion in 2018) after the U.S., France and China.

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Sweden

The Swedish economy peaked in the first half of 2018 and has since entered a slowdown phase, according to the National Institute of Economic Research (NIER). Both the consumer and business confidence indicators in the NIER's Economic Tendency Survey had fallen by the end of 2018, partly due to increased uncertainty about the outlook both at home and abroad. The economy has been driven by strong demand for new housing in 2018. Housing investment has since decreased. Employment grew strongly at the end of 2018, but growth is expected to slow down in the beginning of 2019.

The four main categories of banks on the Swedish market are Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2018, Sweden had a total of 124 banks, comprising 39 commercial banks, 36 foreign banks, 47 savings banks and two co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 63 in 2008 to 75 in 2018. The increase has occurred above all among Swedish commercial banks, when several credit market institutions have been transformed into commercial banks. In 2018, the number of foreign banks increased from 30 to 36. After Nordea moved its headquarters to Finland in October 2018, the bank became by far the largest foreign bank in Sweden.

Cross-border activities have increased over the last several years and the major Swedish banks all have a large share of their business abroad. The banking market in the other Nordic countries is important for the major Swedish banks as well as the Baltic States and other countries in northern Europe.

The Swedish state owns one bank, which mainly offers mortgage loans, and has no other ownership in the banking sector.

The Swedish banks have 1,312 branch offices compared to 1,987 branch offices in 2008. The number of branch offices has diminished slowly in the last ten years due mainly to changing customer behaviour. The Swedish banks have more than 40,000 employees compared to 90,000 in the whole financial sector.

Normal bank services are to a large extent performed through mobile phones, tablets and computers. Moreover, new ways to perform bank services are increasing rapidly, e.g. mobile payment services, Bank e-ID, e-invoices, etc. According to the ECB, Swedes uses non-cash payments to a larger extent than any other Europeans. For that reason, the use of cash is declining rapidly.

The most common means of payment in Sweden are the various charge cards and electronic giro systems. Most payments are linked to bank transaction accounts, which facilitate salary deposits, ATM withdrawals, credit and charge card purchases and automatic transfers. In Sweden there are 2,655 ATMs and 219,000 card payment terminals.

Paper-based payments such as giro forms, cheques and cash payments have been replaced by electronic payments of various types. As an example, the use of different kinds of cards has increased from 1,400 million transactions in 2007 to around 3,350 million transactions in 2017.

According to a survey by the Riksbank, the Swedish central bank, 93% of Swedish citizens have used a debit card in the past month and 62% have used the Swish mobile payment service. Swish, which was introduced

six years ago and offers real-time account-to-account transfer, has 6.9 million users, which corresponds to more than 65 percent of the Swedish population.

A high demand in housing in Sweden for several years has increased house lending. However, falling house prices during 2018 has cooled the market somewhat. Lending to the Swedish public increased by 5.7% in 2018 and deposits from the public increased by 6.7% in 2018.

In a survey among managers of local bank branch offices, business volumes indicate that lending to SMEs has increased since 2013. In the same survey, the managers believe that lending will continue to increase in 2019, although slightly slower than in 2018. According to an OECD report, 40% of outstanding business loans in Sweden are loans to SMEs. A survey by an organisation for SMEs suggest that bank loans are among the most common form of financing for SMEs. According to the survey, 13% of Swedish SMEs used bank loans to finance investments and 9% used corporate revolving credits.

Sustainable finance is a high priority in Sweden. Initiatives in the area have started or are planned by both banks and government.

Despite the low interest rate environment, where the Riksbank has kept negative repo rates from 2015, the Swedish banks have managed to maintain satisfactory earnings. In addition, the Swedish banks' non-performing loan ratio is the lowest in Europe. According to the financial stability report from Finansinspektionen, the resilience among the major banks in Sweden is satisfactory because of high capital and liquidity requirements, but also because of the major banks' strong profitability.

The Swedish banks are important to the Swedish economy and employs 2% of the workforce, constitutes 4.1% of GDP and pay 11% of the corporate taxes.

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Switzerland

Switzerland's economy shows continuous growth and a low unemployment rate. In 2018, real gross domestic product (GDP) grew by 2.6%. Growth was broad-based across the various business sectors, with manufacturing, construction and most service sectors, particularly financial services, providing momentum. Growth slowed down in the second half. Nevertheless, the pharmaceutical, watch and food producers were again able to increase their exports during the last quarter. The unemployment rate for Switzerland in 2018 was 2.6% and, thus, lower than during the previous year.

The financial sector, and particularly the banking sector, is one of the key elements of the Swiss economy. It contributes around 10% to gross value added. As of year-end 2018, there were 248 banks with 2,615 branches and 7,187 ATMs in Switzerland. In addition, banks in Switzerland dispose of 223 branches abroad.

The sector is very diverse with banks differing in size, business model, ownership structure and regional orientation. They include four major banks, 24 cantonal banks, 43 stock exchange banks, one Raiffeisenbank and 60 regional and savings banks. The rest is split between private banks, foreign controlled banks and foreign branches in Switzerland, among others.

Banks contribute to Switzerland's international top competitiveness rank by catalysing economic development, offering a large number of skilled jobs, paying above-average salaries and having a considerable share of public-sector funding in taxes.

However, the challenges currently faced by banks in Switzerland are in fact manifold: high regulatory costs; shrinking margins; price-sensitive customers; rising competition from both financial and non-financial actors and continuing negative interest rates. Overall, Swiss banks remain affected by the negative interest rates. Interest rates on banks' sight deposits at the Swiss National Bank, which exceed a fixed exemption threshold, remain negative at -0.75%. An end of the low rates' regime is not in sight due to the upward pressure on the Swiss franc.

Despite considerable headwinds, the Swiss banking sector is in a moderately positive shape. The stability-related homework is done, service quality meets the highest standards, but profitability needs to be increased. Banks in Switzerland are now primarily focusing on digital innovation in order to develop new business models and to improve internal efficiency and cost structures. Furthermore, the Swiss FinTech landscape has increased significantly, to now over 330 FinTech companies. More than a third of them are active in the field of *Distributed Ledger Technology*. The Swiss crowdlending market has grown by 40% in 2018.

The banks' lending business remains key for the economic development of Switzerland, especially for SME which employ around 68% of the labour force in Switzerland. Swiss SMEs that make use of external capital primarily rely on bank financing. In general, over 90% of the companies that apply for a bank loan in 2017 receive an approval. The total outstanding domestic credit volume in 2018 rose moderately to CHF 1,174 billion (€1,041 billion) of which CHF 1,010 billion (€896 billion) are attributable to domestic mortgage lending.

Clients at banks and securities dealers who are authorised by the Swiss financial market authority FINMA, are covered by a depositor protection scheme. If a bank or securities dealer is declared bankrupt, deposits up to a maximum of CHF 100,000 per client, are secured. This applies to all deposits, including those made at foreign branches.

Almost half of the CHF 6,943 billion (€6,161 billion) assets currently managed by Swiss banks originated abroad. This is equivalent to approximately 27% market share in global cross-border private wealth management business, making Switzerland the global leader in the field.

The aggregate balance sheet of all the banks in Switzerland amounts to CHF 3,225 billion in 2018 (€2,861 billion). The economic contribution of banks remains high, since banks are important consumers of goods and services. Alongside the CHF 31.0 billion (€27.5 billion) generated by the Swiss banking sector in 2017, the indirect effects create an additional CHF 17.0 billion (€15 billion) of value added in other sectors, leading to a total of 7.4% share of Switzerland's gross value added.

In 2017, the financial sector paid CHF 19.3 billion (€17.1 billion) in direct and indirect taxes. Approximately 11.5% of all tax receipts can be attributed to the financial sector (10.7% in 2016).

In 2018, Swiss banks employed 107,388 people (FTE), of which 90,660 were employed in Switzerland. Most of them are employed at one of the four large banks (27%), followed by cantonal banks (19%). The proportion of women employed at Swiss banks stood at 39.5%.

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United Kingdom

Economic output in the UK slowed at the end of 2018 to 1.4%, the lowest rate since 2011. This slowdown was driven by a contraction in business investment and a widening net trade deficit which dragged down output from stable household consumption, supported by annual wage growth of 3.5 %, and expanded government spending.

The annual rate of consumer price inflation, having peaked in recent years at 3.1% in late 2017, stood at 2.1% at the end of 2018, just above the Bank of England's target. The official bank rate was raised from 0.5% to 0.75% during 2018 and has remained at that level since, alongside a static quantitative easing amount of £435 billion. The value of sterling fell during 2018, with its effective exchange rate index 2% lower at the end of the year.

The unemployment rate continued to fall during the year to 4%, while employment hit a record high of 76.1%. The household saving ratio of gross saving to total disposable income was 4.8% in the final quarter of 2018, maintaining an historically low trend over the past two years.

Consumer and business confidence measures weakened during 2018 amid continued uncertainty associated with the economic and trading impacts of the UK's proposed withdrawal from the EU. In 2018, the UK had a trade deficit in goods of £138.8 billion, partially offset by a trade surplus in services of £106.5 billion. The total net trade deficit of £32.3 billion had worsened by £8.4 billion during the year.

Technology and innovation continued to facilitate new entrants into the banking and payments sector in 2018. Further market developments, such as the Payments Services Directive II and Open Banking (facilitating the sharing, with customer consent, of transactional account information with service aggregators to allow recommendations for alternative service providers, or to allow account-to-account payment without an intermediate card or payment service) is opening the market further to increased competition.

Almost 40 billion payments were made in the UK in 2018, with consumers responsible for nine payments out of every ten, the majority of which are made spontaneously. Plastic card usage continues to rise, particularly with the rapid increase in the use of contactless card acceptance at retailer terminals. Virtually all the UK population hold a debit card linked to a personal current or deposit account and two-thirds hold a credit card. Contactless card payments are used by two-thirds of UK adults and accounted for 19% of all payments in 2018 – a proportion that is forecast to double in the next decade as 'payment-tapping' and the holding of cards in smartphone wallets becomes more commonplace. By 2024, debit cards are forecast to account for half of all payments in the UK, as the use of cash continues to decline – as a proportion of all payments it has more than halved, to 28% in the past decade.

The increasing uptake of remote banking services is leading to a natural consolidation of traditional bank branches, although through an industry arrangement with post offices, there are still some 20,000 physical locations where people can carry out banking transactions.

There are some 360 monetary financial institutions (MFIs) in the UK. Just under half the sector balance sheet (47%) is held in GBP, 20% in EUR and 33% in other currencies. By country of ownership, 50% of the sector balance sheet reflects UK ownership, 15% reflects EU ownership and the remaining 34% reflects institutions owned in the rest of the world. Total balance sheet assets of €9 trillion represent the largest banking sector in the EU and the fourth largest worldwide. The regulatory capital ratio of the sector improved again, to 21.4% at the end of 2018, with Core Equity Tier 1 capital of €488 billion, slightly higher than a year earlier.

MFI credit growth in the UK increased in 2018 – annual growth was 4.8% for private non-financial businesses and 3.2% for the household sector. Whilst growth in the former sector had increased from 3.7% at the end of 2017, growth in the household sector was slowing noticeably, with annual secured lending growth at 3.4%, credit card lending at 5% and other unsecured household credit (personal loans and overdrafts) growth at 1.9%. All these growth measures were significantly lower than a year earlier.

Households' deposits with MFIs grew by 2.8% in 2018, a rate virtually unchanged from the previous year and which, alongside reduced credit growth, indicated tightening pressures on household budgeting. Deposits held by private non-financial businesses expanded by only 5.4% in 2018 and has slowed significantly since, compared to the annual growth rate of 7.7% a year earlier, as businesses experienced lower activity, cashflow and profit retention.

In terms of cross-border financial services, the UK banking sector has historically generated a balance of payments trade surplus. In 2017, the latest available figures, the surplus was €30.4 billion, reflecting one quarter of the UK's total trade surplus in services. 60% of the banking sector surplus is generated from trade with Europe, 27% with the Americas and 13% elsewhere.

The UK banking sector contributes 5.4% of UK tax revenues, a greater proportion than its 4.1% share of UK gross value added. The total tax contribution of the sector was some €40.8 billion (equally split between UK-headquartered banks and foreign-headquartered banks), comprising €18.1 billion in employment and other taxes collected and €22.7 billion in corporation and other taxes borne. The sector employment has reduced over recent years but is still almost 390,000 people – some 1.6% of the total UK workforce.

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EBF Associate Members

Albania

The Albanian economy has benefitted from the economic reforms of recent years, supportive financial conditions and a positive performance of the external sector. The economy grew by around 4.2% in 2018. Unlike the previous year, growth has been supported by robust external demand, due to buoyant export growth, and less by expansion of domestic factors. While inflationary pressures increased throughout the year, local currency appreciation and the shift of the economy towards external demand contributed to a lower inflation outcome. The consumer price index increased by 2% on an annual basis, while monetary policy remained accommodative throughout the year.

Those trends have allowed further fiscal consolidation, narrowing of the current account deficit and a positive gain in terms of employment. Following a primary surplus of 0.6% in 2018, the overall fiscal deficit has declined to 1.7%, from 2% the previous year. With the robust growth rates observed last year, the public debt further declined to below 70% from 71.9% in 2017 while the current account deficit shrunk moderately to 6.5-7%. Amidst the positive economic outlook, Albanian authorities successfully completed the issuance of a Eurobond amounting €500 million with seven-year maturity at a relatively low yield of 3.5%.

Following the trends observed through the European economies and the large share of banks owned by European banks, financial consolidation in Albania has led to a reduction in depository financial institutions. The number of banks declined to 14 in 2018 due to the acquisition of two foreign subsidiaries in the Albanian banking system. The acquisition of the two banks followed similar developments of parent companies located in the euro area. As a result, the number of banks with foreign-owned capital has declined to 11 banks, of which seven banks are owned by financial institutions or agents located in the euro area. The capital of the three banks is owned by domestic agents. The share of total bank assets held by the 11 banks with foreign capital stands at 78%.

With the decline in the number of banks, the size of the banking system has slightly changed. The total number of bank branches or agencies operating across the country was 447 in 2018, a slight decline from 473 branches in 2017. In addition, the relative size of total bank assets in terms of GDP slightly declined to 96.8%, compared to 99.4% in 2017.

Despite the smaller number of banks, the financial activity of the banking sector has continued to grow with a moderate positive trend. The currency composition of deposits and loans held by the banks in Albania and the changes in exchange rate mask these positive trends. By the end of 2018, around 53% of bank deposits and around 51% of bank loans to private sector were denominated in a foreign currency. When bank assets are accounted by with a fixed exchange rate, the total assets of the banking system expanded by 1.9%. Nevertheless, the sharp appreciation of the domestic currency to 123.4 Lek/€ (from 133 Lek/€ in 2017) and the high share of loans and deposits denominated in foreign currencies have led to a slight decline in total bank assets when measured in domestic currency by 0.7%.

Banking activity measured by total bank deposits expanded by 3%, after accounting for changes in exchange rate. Whilst total lending has seen a moderate decline, owning to the cutting down on lending to non-residents and to financial institutions, lending to the private non-financial sector has expanded.

The total loans to the non-financial (non-public) corporate sector and to households increased by 3%, mainly due to the expansion of credit to the latter. The sharp appreciation of currency in 2018 has masked some of these moderate trends owning to the direct accounting effects.

The financial soundness of the banking system has improved, in terms of capitalisation, asset quality and liquidity. Regulatory capital to risk weighted assets has continued the upward trend, observed in the previous two years, reaching 18.2%. Similarly, the liquidity position of the banking system has continued to improve as liquid assets to total assets reached 34.2% in 2018, up from 26% in 2010. The ratio of non-performing loans to total loans further declined to 11% in 2018, a decline of two percentage points compared to the previous year, and much lower than the peak of 23.5% observed in 2013.

Compared to the banking sector, the non-bank financial institutions account for a small fraction of the financial system when measured by asset size. Currently, there are 30 non-bank financial institutions and 13 savings and credit institutions. Despite the large number, their financial activity is relatively small. The total assets of non-bank financial institutions account for around 3.9% of GDP as of 2018.

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Andorra

The Principality of Andorra is a European micro-State located in the Central Pyrenees between Spain and France with a population of around 80,000, receiviing 8 million tourists each year.

The Andorran economy is focussed on services, being an important touristic centre for shopping and for winter sports activities.

The economic slowdown in our neighbouring countries has not affected the development of the Andorran economy which has grown close to 2% with good progress in the different domestic productive sectors. The economic activity has shown consistency, with a prominent touristic and construction sector, and with the dynamism of the service sector.

The financial sector is a cornerstone of Andorra's economy due to its significant contribution to the country's GDP (together with the insurance sector, the financial sector accounts for approximately 21%, while employing 5% of the workforce), with its banking system at the core.

The financial system comprises five banking groups, one specialised credit institution, eight financial investment firms, four asset management firms and 34 insurance companies, 18 of which are branches of foreign insurance companies authorised to do business in the Principality.

The banking sector has over 85 years' experience in the business with a presence in 14 countries. It comprises five banks which together manage over €44 billion. Out of the five banks, three are Andorran-owned, one is a subsidiary of a Spanish bank and the other is owned by an American fund.

The banks offer a full range of banking services including loans and credit, asset management and financial consultancy, operations with liabilities, financial analysis and other services (credit cards, transfers, etc.). They have also specialised subsidiaries for financing, insurance and asset management firms.

One of the challenges for the Andorran banks is to continue improving client services, both through face-to-face and remote channels. In this context, one of the sector's main challenges has been the digital transformation. Furthermore, Andorra and the banking sector have become SEPA participants.

Andorra's banking sector overcame a number of challenges in 2018. The country's financial institutions are facing the final part of their transformation with a firm commitment to transparency and compliance with international regulations and standards. The Andorran banking sector ended 2018 by consolidating its position with a total of €44.9 billion of managed resources, a figure that has remained stable over the past three years, but which has almost doubled in the last decade.

After several years of changes in the international financial scene, Andorra remains a strong financial centre. In 2018, all Andorran banks maintained their international credit ratings, which shows the agencies' renewed confidence in the industry as Andorran banks continue to enjoy solid fundamentals. One other important factor that points to the sustainability and reliability of the Andorran banking sector is its financial return (ROE), which stood at 7.31%.

The figures for last year also show a profitable and solvent sector. The Core Equity Tier 1 (phase-in) solvency ratio —calculated on a comparative basis— was 16.30% on 31 December 2018. We are an internationally

active financial marketplace. The banking sector is a major player in the Andorran economy and is committed to improving the country's economic growth and well-being.

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Armenia

Armenia has a strong and stable financial system with banks dominating the system. The system is well protected due to the strict and market-friendly supervision by the Central Bank of Armenia.

In recent years, the Armenian banking sector has benefitted from adjustments to its legislation and corporate governance, high liquidity of banking assets and favourable conditions for transferring investments to other markets. These are the sound bases for rapid development of the economy and healthy demand for financial products.

The banking system is the biggest part of the Armenian financial market. As of 31 December 2018, there were 17 commercial banks operating in the Republic of Armenia. They had 537 branches in Armenia, of which 241 were based in Yerevan. The total number of employees in the Armenian commercial bank sector was about 11,773. All the banks are listed in the range of the first one thousand large taxpayers' list.

In December 2014, the Central Bank of Armenia raised the minimum amount of total capital to AMD 30 billion from previous AMD 5 billion with effect from 1 January 2017. This was aimed at ensuring the stability, efficiency and transparency of the Armenian banking environment.

The banking system is privately owned with no government share. Moreover, three of the 17 Armenian banks are open joint stock companies and banks are expected to continue to strive to attract new shareholders.

Non-residents hold stakes in all Armenian banks. Moreover, in total 65% of shares belong to non-residents. In nine banks, 100% of the shares belong to non-residents and only in seven banks are the shareholdings of non-residents less than 50%. The shares of international organisations in Armenian banks are also significant. For example, EBRD has 2.52%-22.7% shares in three banks and ADB has a 13.9% share in one bank.

Foreign investments in the Armenian banking sector total $5.221 billion. Investments have been made by the World Bank, European Bank for Reconstruction and Development (EBRD) and Black Sea Trade and Development Bank on a large scale. By 2018, EBRD investments in Armenia reached $1,398 million in 122 projects, of which 49% went through the Armenian banks. The investments of the Black Sea Trade and Development Bank make up $296 million, 62.8% went through the Armenian banks. International Finance Corporation (IFC) and KFW investments totalled $480 million and $504 million respectively.

The return on assets (RoA) was 1.34% and the return on equity (RoE) was 8.36%. In the context of capitalisation ratios, the capital adequacy ratio was 18.4% in 2018.

Armenian banks actively participate in the development of each sector of the economy. The transfer volume through the banking system is also impressive. In 2018, transfers only into Armenia were $1,780 million, of which $1,049 million came from Russia and $224 million from the USA.

The major part (92.4%) of the total sum of the outstanding loans was provided to the residents of Armenia, of which 53% were companies (only 1.07% of this amount was provided to the state-owned companies), 39.4% to households, and only a small part to non-profit organisations and other financial organisations.

Loans to consumer, industry and the trade sector traditionally account for the major part of the total loans of the banks: 36%, 17% and 17%, respectively, in 2018. The biggest growth in lending was in transport and communication (compared to 31 December 2017, the volume of loans grew by 46.2%).

As of December 31, 2018, total Loans/GDP is 54.1% and total deposits/GDP make ups 47.7%.

The ongoing globalisation and fierce competition made banks shift to a new business model – the digital bank model – enabling their clients to make transactions by using remote channels such as Internet and mobile devices.

The Armenian banks recently began to introduce various channels of remote services, particularly online and mobile banking.

However, banks have had little time to transform their activities to adapt to new realities and they face competition from other non-bank institutions, such as payment systems and telecommunication companies which have begun to provide financial services.

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Azerbaijan

Azerbaijan's economy increased by 1.4% and the non-oil sector by 1.8% in 2018, after a challenging period, as a result of the positive impact of the economic reforms, the stabilisation of oil prices and foreign exchange rates and the return on balance of payments to surplus. The inflation rate dropped by more than 10 percentage points to 2.3% in 2018.

With a gradual increase in oil prices, the surplus in the current account balance in 2018 was $6.1 billion. The large financial accounts deficit observed in 2017 ($0.1 billion) jumped to $3.2 billion. The main reason for the improvement of the balance of payments, along with increased oil prices, was the increase in the surplus on tourism. As a result, the country's foreign exchange reserves increased by $3 billion.

As a result of the increase in transfers from the State Oil Fund of the Republic of Azerbaijan to the state budget in 2018, there were increases to the state budget revenues (36%) and expenditure (29.1%). Transfers from the State Oil Fund to the budget amounted to $3.6 billion in 2017 and $6.4 billion in 2018. The amount of assets of the State Oil Fund was close to $38.5 billion at the end of 2018.

During this period, the central bank CBAR increased the monetary base by 11.7% in 2018 to meet the monetary demand and maintain the monetisation level. The offficial exchange rates at the end of 2018 were 1.7 AZN/US$ and 1.95 AZN/€. The reserves of CBAR exceeded $5.6 billion in 2018.

The process of abolishing banks' licences ended in 2017 and the number of the banks operating in the Azerbaijan economy remains stable. In 2018, 30 banks operated in the market, of which two were state owned and 28 were private banks. The share of foreign capital in eight out of 15 foreign capital banks was over 50%. Two of these banks are local branches of foreign banks.

The volume of bank assets increased by 5.6% amounting to €15.2 billion in 2018, the loan portfolio increased by 11% amounting to €6.7 billion, and the non-performing loan (NPL) ratio decreased from 13.8% to 12.2%. A decree accepted at state level in February 2019 is an important step towards reducing NPLs and removing the preponderance of debt burden generated by the devaluation carried out by government and banks. It is expected to reduce the volume of NPLs significantly. Banks continued to increase capital, with the total capital of the sector increasing by 9.8% in 2018 amounting to €2.1 billion.

In 2018, about 6% increase was observed in the banking sector's deposit base, but household savings and non-financial organisations' deposits rose by 10.7% and 7.6% respectively.

There have not been sharp fluctuations in the local currency rate in recent times. As a result , the level of dollarisation in deposit and savings has dropped. In 2018, the dollarisation level in deposits and household savings dropped by 7.1 percentage points and 4 percentage points, respectively.

Generation of revenues in the banking sector was restored. Net interest income of the sector in 2018 amounted to €601.6 million euros, non-interest losses totalled €244.8 million and net profit (after tax) amounted to €143.5 million.

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Bosnia and Herzegovina

Bosnia and Herzegovina is a country in Southeastern Europe, located in the Balkan Peninsula, with a population of 3.5 million. It is home to three ethnic constituent peoples, Bosniaks, Serbs, and Croats, plus a number of smaller groups including Jews and Roma. Sarajevo is the capital and largest city.

The convertible mark (konvertibilna marka – KM-BAM) is the national currency, pegged to the euro through a currency board arrangement within the Central Bank of BiH, which has maintained confidence in the currency and has facilitated reliable trade links with European partners (1 EUR = 1,95583 KM).

The IMF estimated Bosnia and Herzegovina's nominal GDP per capita at almost $5,704 in December 2018, up from about $5,181 in December 2017. Looking ahead, the nominal GDP per capita is projected to stand at $7,731 in 2023. According to the country's Directorate for Economic Planning, budget revenues rose 8.0% year-on-year to €1.8 billion in Q1 2018, with the strongest positive contribution from the 8.4% year-on-year higher VAT intake, followed by social contributions (up 5.9%) and toll revenues (up 46.4%) after administrative price hikes.

The financial system is dominated by commercial banks with 23 banks operating on the market.

As Bosnia and Herzegovina comprises two entities: Federation of BiH and Republic of Srpska, there are two supervising bodies - two banking agencies for the banking sector: Banking Agency of Federation of BiH and Banking Agency of Republic of Srpska.

Despite great competition, decreased interest rates and modest credit growth, the results of the sector's operations show profitability that has not been recorded in recent history. All banks achieve historically strong results.

According to preliminary data, as of December 2018, the net profit of banks amounted to 367.1 million KM ($214.8 million), 10% higher than 2017. Total assets of the banking sector amounted to 30.9 billion KM $(18.08 billion), also up by 10% compared to 2017.

Credit growth in the same period was 5.7% higher compared to 2017, while the total value of loans reached the level of KM 19.5 billion ($11.4 billion). Loans to legal entities grew by 4.4% to 10.2 billion KM ($5.9 billion) and loans to individuals by 7.2% to 9.2 billion KM ($5.4 billion).

Deposits grew by 10.5% compared to 2017 and reached KM 21.75 billion ($12.72 billion). Deposits of legal entities had a much higher growth (14.3%) than individuals' deposits (7.7%).

The increase in deposits and loans enabled the increase of economic activity throughout the country. The growth rate of total loans for 2019 is expected to be around 5.5%, followed by a growth of about 4% in 2020 to 2021.

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Moldova

In 2018, the Moldovan economy has performed in line with previous forecasts. GDP grew by 4.5% over 2017, on a broad basis that practically covered all the basic sectors. After a period of stagnation for a few years, there was, in 2018, a warming up of the investment process. There was a substantial increase of about 9% in Gross Fixed Capital Formation. During the year, the employed population increased, and the unemployment rate reached the lowest level in the last 18 years, reaching 3.45% by the end of 2018. The Consumer Price Index had a downward trajectory from 4.7% at the beginning of the year to 1.2% at the end of 2018.

The banking sector of the Republic of Moldova continued the trend of consolidation of own funds. At the same time, banks maintained a high liquidity and profitability level. The main financial and prudential indicators of banks remain appropriate. The capital reserves accumulated during the past years, facilitating the transition to a new assessment regime of capital sufficiency, the limit set for this indicator is 10%. The solvency level for the entire banking sector is still high (about 28%), with fluctuations from bank to bank to the range of 20% to 66%. The liquidity of banks is well above the regulated limits, reaching about 55% in the short term, i.e., more than half of banks' exposures are liquid assets. Indicators of asset quality continue to improve thanks to efforts to resolve the issue of non-performing loans (NPLs) granted in the period prior to the banking crisis. The rate of NPLs is approximately 12.5% and has decreased by 5.8 percentage points compared to the end of 2017.

Law on banks' activity, which modernised the regulation and supervision standards in the banking sector, came into force on 1 January 2018. The law provided improvements to the corporate governance framework of the banks and their obligation to hold adequate share capital in relation to the assumed risks. The law will contribute to the harmonisation process of the national banking legislation with international principles and standards.

On 30 July 2018, the new Basel III regulations came into force (based on the European CRD IV / CRR framework). The new regulations set the size of capital buffers, which if necessary, will diminish the impact of systemic crises on banks' capital.

Therefore, according to the reports presented by banks at the end of 2018, the total own funds rate, in the banking sector, was 26.5%. At the same time, the risk-weighted capital adequacy ratio amounted to 31.3%. The transition to Basel III had a 5% impact, which is within the limits of the calculations conducted previously by the NBM.

At the end of 2018, 11 banks licensed by the National Bank of Moldova operated in the Republic of Moldova. In accordance with the banking supervision priorities and the commitments assumed towards the development partners in strengthening the transparency of the shareholders' structure for the banks, significant changes, related to the acquisition of shares in the capital of certain banks by several reputable international groups, were made in 2018. As a result, more than 70% of bank assets are being managed by international groups with a sound reputation.

After three years of anemic developments, the bank's intermediation function saw the first positive signs of growth. Against the background of decreasing interest rates, the demand for new loans increased both from individuals and business entities.

The value of the gross loan portfolio increased by 5.9% during 2018. At the same time, the volume of new loans granted in 2018 increased by 17.8%, compared to 2017. The highest increase in 2018 was in consumer loans and real estate loans. One of the factors that triggered this increase was the decrease of the interest rate.

At the same time, the trend of increasing the deposits continued. According to the prudential reports, they increased by 6.0% in the reference period. People reoriented their savings from short-term to long-term deposits.

Non-cash payment instruments continued to develop. The number of bank cards in circulation increased by 11.5% and the number of bank card transactions increased by 24.5%. The number and value of transactions abroad with bank cards issued in the Republic of Moldova increased considerably by 65% and 26.1%, respectively.

The banking sector maintained its profitability, so the profit on the banking system increased by 7.0% in 2018 compared to the same period of the previous year. The return on assets and return on equity were 2.1% and 11.6% respectively, each increasing by 0.2 percentage points, compared to the end of the previous year.

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Monaco

Monaco's financial marketplace dates back to the end of the nineteenth century, when the first deposit banks opened in the Principality. Most of these banks were French. However, the financial industry did not really take off until the 1970s, when expansion was stimulated by an imaginative and active policy on the part of the public authorities and by the effect of a long period of economic growth and political and social stability.

Today, Monaco has a very extensive banking network, comprising around thirty full-service banks and sixty portfolio or mutual fund management companies.

The banking and finance industry is now one of the strengths of the Principality's economy. Total assets have doubled in the past 10 years. By the end of 2018, credit institutions held about €119 billion in deposits and securities.

- Monaco's continued attraction as a financial centre is based on advantages that include high quality infrastructure and dedicated professionalism;
- a diversified economic base and an attractive tax regime.

All of the banks operating in Monaco belong to leading banking groups. Half of the industry's assets belong to non-resident customers from all over the world including Asia-Pacific.

Under various agreements between France and Monaco, Monegasque banks are supervised by the Prudential and Resolution Supervisory Authority (Autorité de Contrôle Prudentiel et de Résolution [ACPR]) and are therefore subject to the same prudential and regulatory rules as French banks. All supervisory activities are highly regulated, which guarantees the confidentiality of transactions carried out by financial institutions in Monaco.

Asset management companies are approved and controlled by the Commission de Contrôle des Activités Financières (CCAF), which is supported at the highest level by the Autorité des Marchés Financiers (AMF), the French market regulator.

Strong data protection regulation monitored by a local regulator, the Commission de Contrôle des Informations Nominatives (CCIN).

The industry provides a full range of private banking products and services, as well as a personalised approach to a highly demanding clientele. More importantly, it guarantees the confidentiality of « clean money ». It also provides access to mutual fund management through a very broad array of investment funds covering every business sector and markets, including emerging markets. AMAF is an Associate Member of the European Banking Federation, the united voice of banks established in the European Union, and the European Free Trade Area, as well as the French speaking Banking Union (UFB) since April 24th, 2013. On March 31st, 2009, Monaco joined the Single Euro Payment Area (SEPA).

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Montenegro

Gross domestc product grew by 4.9% in Montenegro in 2018, according to preliminary data from MONSTAT (Statistical Office of Montenegro). Strong growth was due to an increase in tourism, energy and industrial production.

The annual inflation rate (CPI – Consumer price index) in December 2018 was 1.6%. Average inflation (CPI – Consumer price index) rate in 2018 was 2.8%.

Estimates of the Ministry of Finance indicate that Montenegro's budget revenues and state funds in December 2018 amounted to €184.7 million or 4% of the estimated GDP. It represented a slight decrease of 0.6% in relation to December 2017. Budget expenditures in December 2018 fell by 5.6% to €255.1 million or 5.5% of GDP.

At the end of 2018, the banking sector consisted of 15 banks and 13 banks by April 2019. The banks' networks comprised 207 organisational units, including 111 branches. The total number of employees in the banking sector amounted to 2,497. At the end of 2018 there were 443 installed cash machines.

The main portion (62%) of banks' assets was concentrated within five banks, which granted 63% of total loans and took 60% of all deposits. Banks' concentration did not record any significant changes during 2018. Six small-sized banks had a total asset share of 12%. During December 2018, interim administration was introduced in Atlas Bank and Invest Bank Montenegro.

Banks' capital mostly comes from foreign sources. The share of foreign capital in banks amounted to 84%, and domestic capital accounted for 14%, while the share of government capital in total capital was 2%. Ten banks with majority foreign capital, originating mainly from large banking groups from the EU, were in control of 80% of the banking market.

At the end of 2018, there were 26,334 credit card users, down from 27,359 a year earlier. Individuals accounted for 23,703 users and legal entities 2,631.

Montenegro's banking sector is stable and has improved. In 2018, banks experienced growth in assets, loans and deposits, while capital slightly decreased, along with a continuous decline in interest rates and the level of non-performing loans.

At end-December 2018, total assets and liabilities of banks amounted to €4,407.2 million, recording a yearly increase of 5.38%. The main share in the structure of aggregate balance sheet of banks referred to loans, which increased by 8.5% year-on-year to €2,929.2 million. In December 2018, deposits in banks amounted to €3,459.2 million, rising by 5.9% year-on-year.

In terms of loan structure, loans to individuals took the main share of 44% in total loans. They were followed by loans to the corporate sector with a share of 35%, placements to banks with 9%, loans granted to the Government of Montenegro with 6% and other loans with the share of 6% in total loans. Loans to the corporate sector (state and private companies) stood at €1 billion, with year-on-year growth of 6.63%.

During 2018, the total amount of new loans was €1.2 billion, or 7.47% more year-on-year. Loans to legal entities accounted for the main share of 58% in total new loans.

Within deposits, €1.8 billion or 53% came from natural persons or individuals and €1.6 billion or 47% from referred legal entities. Legal entities' deposits grew by 4% year-on-year, whereas natural persons' deposits grew by 8%. Demand deposits accounted for 64% of total deposits. The banking system is lacking a stable long-term deposit potential. The share of non-resident deposits was 21.31%, while deposits in other currencies accounted for 6.92% of total deposits.

At the end of December 2018, banks' capital was €513 million, 0.2% lower than at the end of 2017.

Banks' solvency ratio was 15.63% at the aggregate level. Two banks in the system failed to meet the minimum legally prescribed solvency ratio of 10%, while the remaining banks showed the solvency ratio between 12.50% and 45.62%.

As of31 December 2018, the banking system operated with profit. Operating profit at the system level was €58 million. At the system level, four banks reported negative financial result. Banks' aggregate return on average assets amounted to 0.58%, while the return on average equity was 4.87%. These two key profitability indicators declined in relation to the corresponding period of the previous year when they stood at 0.88% and 6.92%, respectively. Earning assets accounted for 79% of total assets. This ratio fell below 70% in some small-sized banks.

The banking system was liquid. Banks' liquid assets amounted to €994.5 million and made up 22.57% of total assets. The value of loans and receivables to the deposits ratio was 84.68%, indicating that the system's deposit potential exceeded receivables, arising from loans granted, by €530 million. One bank failed to meet the prescribed the minimum daily and ten-day liquidity ratios.

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Republic of North Macedonia

The overall environment in 2018 was considerably more favorable than in 2017. Indicators of economic activity showed its recovery, inflation remained low and stable, credit flows continued registering solid growth and loans and deposits growth accelerated.

After economic stagnation in 2017, the economy grew by 2.7% in 2018. Increased exports from the free economic zones, has contributed to favourable movement of the trade deficit, which is expected to improve in future as well. As a result, the current account deficit has been improved in 2018. The trend of unemployment reduction continued, thus reducing the unemployment rate in the last quarter of 2018 to the historically lowest level of 19.4%.

Last year, the National Bank of the Republic of North Macedonia reduced the reference interest rate on three occasions by a total of 0.75 percentage points to the historically low level of 2.5%.

At the end of 2018, 17 deposit taking institutions, i.e. 15 banks and two savings houses operated in the Republic of North Macedonia. The number of banks and savings houses is unchanged compared to the previous year. Fourteen banks are privately owned while the Macedonian Bank for Development Promotion is the only state-owned bank.

In 2018, the number of banks owned by foreign shareholders (11) as well as the number of subsidiaries of foreign banks (six) was unchanged compared with 2017.

According to the country of origin the biggest shareholders are from Greece and Slovenia, whose shares accounted for 19.5% and 14.8%, respectively, of the total capital and reserves of the banking sector.

The Macedonian banking sector is self-funded and stable, making it quite resilient to external shocks.

The banking network is spread across all country and consists of 420 business units (seven units fewer than in 2017).

The total number of transaction accounts in the country in 2018 grew by 2.4%. The total value of payments increased by 10.2%. Some 99% was realised with credit transfers and the rest with payment cards. Electronic credit transfers accounted for 43.8% of the number of credit transfers. Legal entities usually initiate electronic credit transfers through a personal computer (99.4%), while 81% of individuals use personal computers, 18% use mobile phones and 1% ATMs. There were 53 million transactions with domestic payment cards for the purchase of goods and services, in the country in 2018, representing an annual growth of 22%. The growth of contactless cards was accompanied by simultaneous growth of devices for carrying out contactless payments. Some 58.6% of EFTPOS terminals supported contactless cards at the end of 2018, 9.2 percentage points more than in 2017.

Total loans increased by 7.3%, recording moderate acceleration compared to the previous year (5.4%), with the largest contribution of loans to households, but also moderate acceleration in lending to the corporate sector. Household lending has grown by an average of around 10% per annum in the past six to seven years. Consumer loans represent the biggest part of the total loans in this sector. However, from the middle of 2015, housing loans have been the fastest growing segment of the household loan portfolio, with an annual growth rate around 15%, so their share in the total household loans has increased to almost 30%, end-2018, up from 25% at the beginning of 2015). The growth of loans to non-financial entities has accelerated

and is twice as fast as in 2017, but is still lagging behind the growth of household loans. About 80% of total loans to non-financial entities in three economic sectors -industry, wholesale and retail trade and construction, and real estate activities.

In the past seven years, the ratio of loans to deposits has been relatively stable and was 86.2% at the end of 2018).

Prudent risk management contributed to improvement in the banks' risk profile so the share of non-performing loans (NPLs) in total loans to non-financial entities dropped to 5.2%. Furthermore, the NPL portfolio is well covered, with NPL coverage ratio of 110.2% at the end of 2018.

Total deposits increased by 12.1%, which represented a significant acceleration compared to 2017 (5%). The stable and satisfactory solvency of the banking system strengthened further in the preceding year. The capital adequacy ratio equaled 16.5%, while the ratio of highest quality own funds of the banking system and the risk weighted assets was 15%. The banking system had capital available above the regulatory and supervisory requirement of 8.6% of the total own funds.

Profitability of the banking system improved in 2018. Return on average assets and return on average equity rates reached solid levels of 1.7% (1.4% in 2017) and 16.0% (13.5%), respectively.

The cost to income ratio in 2018 was 46.2% and this is following a downward trend (48.7% in 2017).

The transition in the second phase of the Stabilisation and Association Agreement concluded between the country and the EU and its member states will bring changes to the business environment for the banks, which are expected to integrate further the domestic system into the global financial system. At the same time, the entry of Fintech activities and the announced adoption of the Law on Payment Services and Payment Systems, a part of the rising regulatory burden, are challenges that the banks will face in the coming period.

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Serbia

Higher-than-expected GDP growth of over 4% was recorded in Serbia in 2018, due to robust investment activity, exports and labour market recovery. The growth was led by both public and private investment. In 2019, GDP is expected to grow by 3.5%, while in the medium term, at the rate of around 4%.

Serbia's risk premium remains among the lowest in the region, primarily as a result of domestic factors, such as multi-year narrowing in internal and external imbalances. The fiscal surplus in 2018 was 0.6% of GDP, while public debt declined (in the beginning of 2019 at 50.4% of GDP).

The inflation rate was low and stable at 2.0% and the dinar (RSD) foreign exchange rate remained stable in 2018 at EUR/RSD=117). The policy rate was cut in March and April 2018, each time by 25 basis points, to 3.0%. Since the beginning of monetary policy relaxation cycle (May 2013), dinar lending interest rates fell sharply. In February 2019, dinar interest rate for the corporate sector was 4.3% (down by 12.1 percentage points since May 2013), and for households at 10.3% (down by 10.3 percentage points). In 2018, a sharp fall in the country risk premium and monetary easing by the ECB contributed to the fall in EUR indexed lending rates.

The unemployment rate in Q4 2018 was 12.9%, a decline of 1.8 percentage points year-on-year, and the employment rate 47.4% (up 1.1 percentage points). The participation rate was higher by 0.7 percentage points at 68.1%. Favourable trends in the labour market come mainly from the manufacturing, private sector services and construction.

In 2018, the banking sector of Serbia comprised 28 banks, among which eight were domestically owned and 20 had majority foreign capital. Domestically owned banks 2018 held 23.7% of total assets and 24.5% of total capital. Five domestic, stated-owned banks held 16.5% of assets and 13.8% of capital. The three domestic privately owned banks held of 7.2% of assets and 10.7% of capital. The 20 banks with foreign stakes held 76.3% of assets and 75.5% of capital.

During 2018, the National Bank of Serbia introduced and enabled the system of instant payments. Banks operating in Serbia already manage online banking services, mobile payments and other digital transformation initiatives.

There were 1,610 bank business units in 2018, of which domestic banks had 554 (state-owned 430 and privately owned 124), and foreign-owned banks had 1,056. The banks had 23,067 employees in 2018, among which 29.3% were employed in banks in domestic ownership and 70.7% in banks in foreign ownership.

Total deposits with banks stood at RSD 2,501.9 billion at Q3 2018. The share of foreign currency (FX) and FX-indexed deposits in total deposits was 68.5%. The euro was the dominant currency, making up 91.1% of total FX and FX-indexed deposits. The rest of FX and FX-indexed deposits were mainly in US dollars (5.1%) and Swiss francs (2.8%).

In terms of initial (agreed) maturity, demand deposits dominate (62.1% of the value of deposits), followed by deposits maturing in up to one year (25.5%), while 12.4% of all deposits were agreed for over one-year term.

At Q3 2018, FX savings accounted for 93.3% of household deposits and dinar savings for 6.7%. Total household deposits in foreign currency amounted to RSD 1,109.5 billion.

In Q3 2018, gross loans of the Serbian banking sector reached RSD 2,178.2 billion, RSD 124.5 billion or 6.1% more than at the end of 2017. Dinar cash loans increased by 15.0% for the first nine months of 2018. As for loans to corporates, growth is most evident in liquidity and current assets loans with an FX clause. The corporate and household sectors accounted for 45.0% and 40.6%, respectively, of total gross loans. The currency structure of the Serbian banking sector's loan portfolio is still dominated by foreign currency. At end-Q3 2018, FX and FX-indexed loans accounted for 68.8%. The prevalent currency of loan indexation in Serbia was the euro, with euro-denominated loans making up 65.0% in total loans (94.5% of total gross FX and FX-indexed loans).

At Q3 2018, dinar loans made up 31.2% of total gross loans. Observed by sector, households accounted for the bulk of dinar loans (55.6%), public non-financial sector accounted for 7.8% and foreign entities for 0.4%. By loan category, dinar loans accounted for the major portion of cash and consumer loans (99.1% and 64.2% respectively). The share of cash loans in total loans increased to 18.3% at the end of September 2018.

The quality of banking sector assets continued to improve in 2018. Implementation of non-performing loan (NPL) resolution measures together with the growth of credit activity led to a significant improvement in the banks' portfolio quality. The NPL ratio decreased to 5.7%, the lowest level since 2008, when the definition and reporting requirements were introduced. Banks maintained relatively high coverage through IFRS provisions and regulatory reserves.

The banking sector's net profit, before tax, in the first nine months of 2018 was RSD 53.9 billion, up by 0.8% year-on-year. Some 24 banks reported combined profits of RSD 55.5 billion, while four banks reported combined losses of RSD 1.6 billion. Five accounted for 68% of the total sector's profit. At the end of September 2018, the sector's return on assets (ROA) was 2.07% (down from 2.18% at end-September 2017) and the return on equity (ROE) was 10.66% (11.01% at end-September 2017).

Profitability was influenced by a decrease in other operating incomes (by RSD 6.5 billion), which was primarily a consequence of the banking sector's consolidation process.

The banking sector of Serbia also achieved the following indicators of performance: sector liquidity indicator 2.0%, standard non-performing loan (NPL) ratio 5.7% and capital adequacy ratio 22.3%.

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Turkey

The number of banks operating in the banking sector was 53 as of April 2019: 33 of them were deposit banks, and 13 of them development and investment banks. Of the deposit banks, three were state-owned banks and eight were private banks. There are six participation (Islamic) banks.

The share of assets of deposit banks in the banking sector was 88%, while the shares of development and investment banks and participation banks were 7% and 5%, respectively.

The number of employees did not significantly change compared to the end of the previous year and reached 208,000 people in 2018. The number of branches declined by six to 11,576.

As of December 2018, the share of the five largest banks in total assets was 56%. According to the loan and deposit volume, the share of the five largest banks in total increased by one percentage point and reached to the 61% and 56%, respectively, while their share in assets remained the same.

Total assets reached $732 billion as of 2018. The ratio of total assets to GDP was 104%. Loans and securities had, respectively, shares of 62% and 12% in total assets.

Loan volume of the banking sector reached $453 billion and the ratio of loans to GDP was 65%. Some 53% of total loans was extended to large scale companies and project financing, 25% to SMEs, and 22% to consumers.

In the last quarter of the year 2018, a relatively slowdown was recorded in loans. Turkish lira (TL) loans decreased by TL 54 billion, while FX loans increased by $1 billion. TL deposits and FX deposits increased by TL 7 billion and $8 billion. Loan-to-deposit ratio decreased by 4 percentage points to 115%. The ratio of non-performing loans to total loans was 4%.

53% of assets was financed by deposits, while 26%, by non-deposit funds. The ratio of shareholders' equity to total assets was 11%.

Total deposits reached $386 billion. The share of TL deposits in total deposits decreased by five percentage points to 51%.

Shareholders' equity increased to $80 billion. Capital adequacy ratio was 17.3%. Core capital adequacy ratio remained at a high level and was 13.8%.

Interest income and interest expenditures increased by 49% and 66%, respectively, in 2018. Thus, net interest income increased by 29%.

Net profit increased by 22% to $10 billion. In 2018, average return on equity was 13.6%. Average return on assets decreased by 10 basis points to 1.5% level compared to the previous year.

As of December 2018, the number of active customers using digital banking transactions reached 44 million. 96% of the customers were household, and 4% were corporate.

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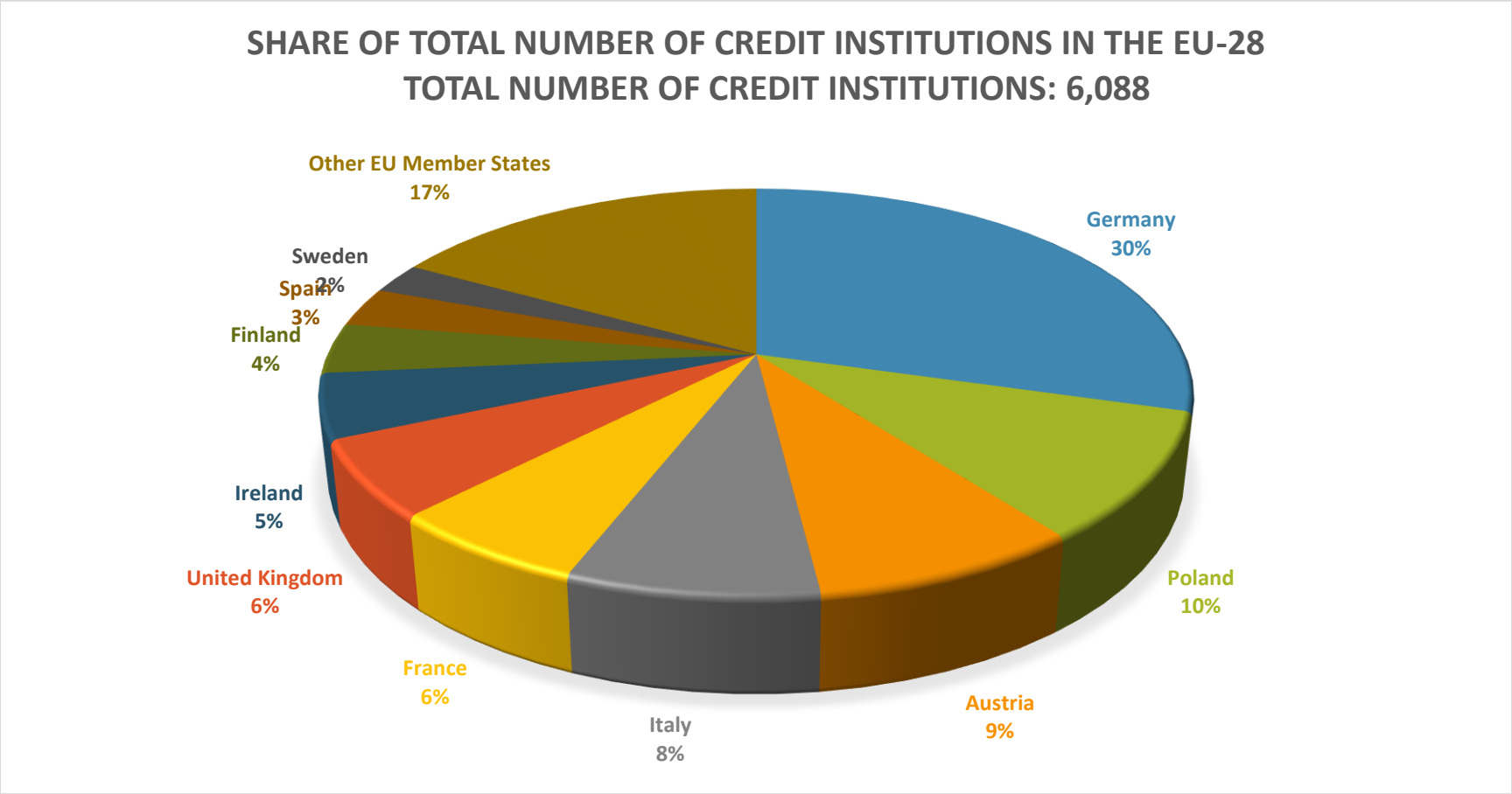
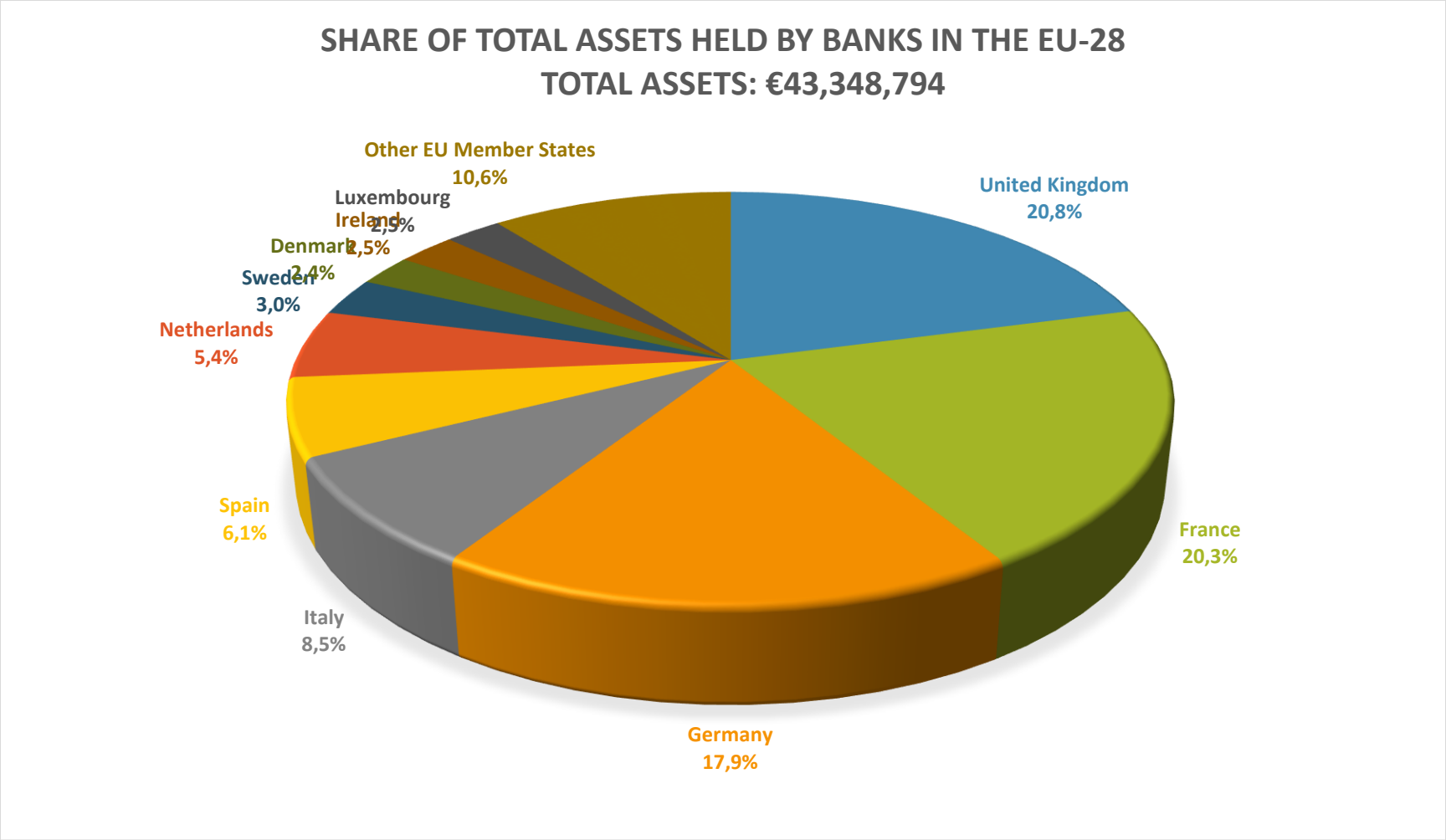
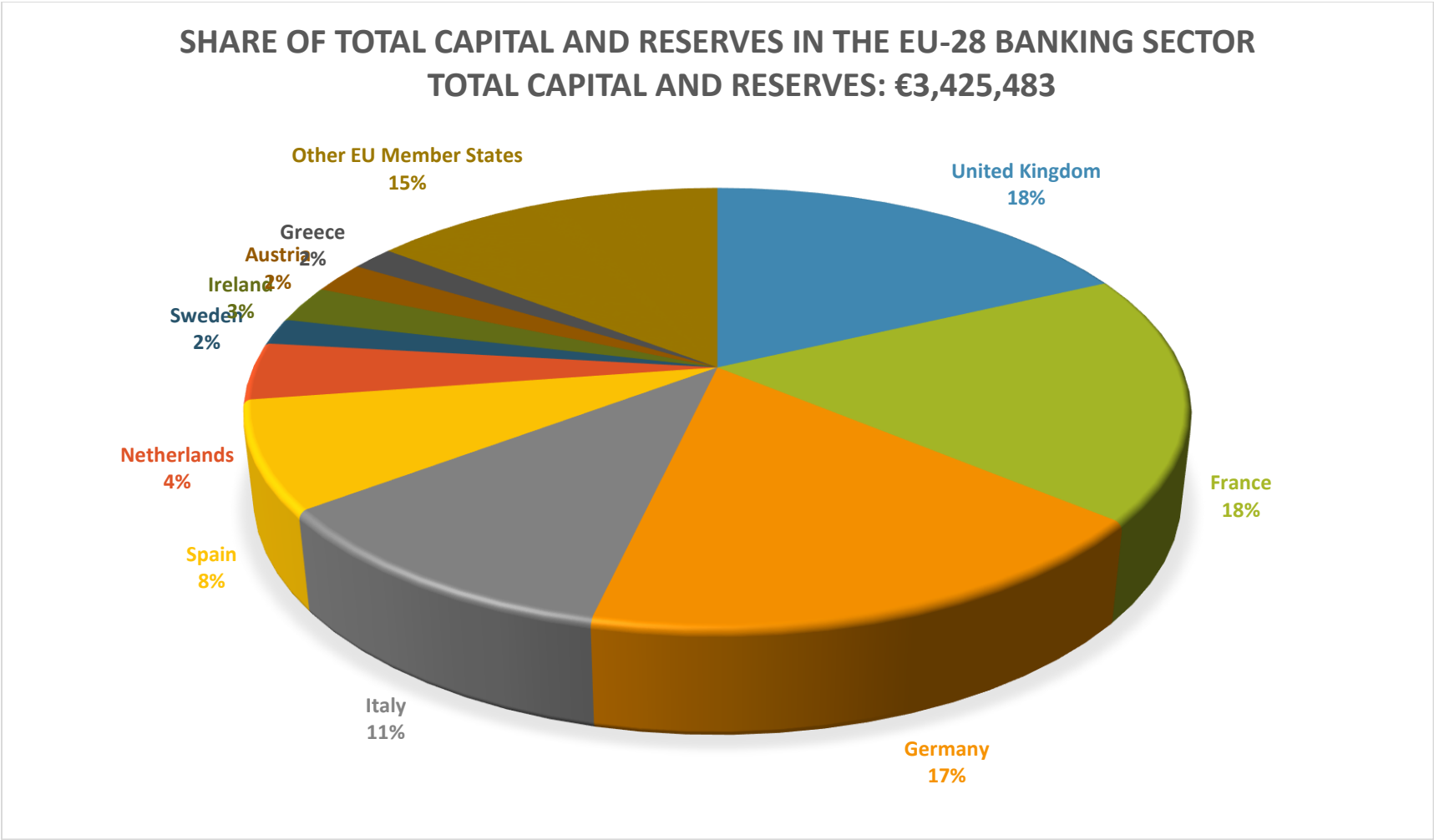
STATISTICAL ANNEX

All figures as at 31 December 2018.




SHARE OF TOTAL ASSETS HELD BY BANKS IN THE EU-28
TOTAL ASSETS: €43,348,794
Other EU Member States
10,6%
Luxembourg
2,5%
Ireland
2,5%
Denmark
2,4%
Sweden
3,0%
Netherlands
5,4%
Spain
6,1%
Italy
8,5%
Germany
17,9%
France
20,3%
United Kingdom
20,8%


SHARE OF TOTAL CAPITAL AND RESERVES IN THE EU-28 BANKING SECTOR
TOTAL CAPITAL AND RESERVES: €3,425,483
Other EU Member States
15%
United Kingdom
18%
Greece
2%
Austria
2%
Ireland
3%
Sweden
2%
Netherlands
4%
France
18%
Spain
8%
Italy
11%
Germany
17%

Country-by-country statistics – Euro area Member States

All figures as at 31 December 2018

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Austria	544	845,380	565,048		78,008	71,798
Belgium	88	1,001,881	601,842	664,939	72,797	51,740
Cyprus	32	69,861	48,538	42,784	13,560	8,946
Germany	1,584	7,775,993	4,981,050	4,857,395	599,066	564,935
Estonia	37	26,207	24,608	18,020	3,588	5,317
Spain	200	2,645,174	1,622,579	1,843,490	269,430	179,055
Finland	257	628,492	374,908	234,683	52,803	20,796
France	409	8,810,390	5,412,610	4,701,364	619,746	408,941
Greece	37	292,595	190,919	178,114	59,444	39,382
Ireland	327	1,101,935	332,900	302,891	92,430	27,940
Italy	508	3,669,283	2,388,626	2,623,710	380,251	274,056
Lithuania	85	30,064	26,672	24,235	3,144	9,165
Luxembourg	135	1,077,297	470,964	455,247	60,136	26,317
Latvia	54	22,792	18,128	15,318	3,408	7,345
Malta	24	44,435	19,805	23,291	4,297	5,044
Netherlands	93	2,320,609	1,384,483	1,181,180	143,667	72,199
Portugal	141	390,771	239,657	283,121	54,456	50,819
Slovenia	17	40,630	28,130	31,942	4,804	9,683
Slovakia	27	82,005	61,155	61,934	10,466	19,539
Eurozone	**4,599**	**30,875,794**	**18,792,622**	**18,086,933**	**2,525,501**	**1,853,017**

Country-by-country statistics – Non-euro area EU Member States

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Bulgaria	26	57,133	38,367	41,776	9,266	29,991
Croatia	22	60,202	44,320	43,117	10,973	20,028
Czech Republic	59	286,090	209,579	166,485	28,729	40,244
Denmark	98	1,056,444	668,793	320,447	64,300	41,737
Hungary	60	126,053	65,236	82,234	13,660	39,434
Poland	647	461,749	321,283	316,511	68,786	166,011
Romania	34	104,334	65,301	74,686	15,047	53,737
Sweden	153	1,284,115	831,558	509,420	65,685	52,255
United Kingdom	390	9,035,347	4,078,704	3,886,742	615,796	370,083
Non-Eurozone	**1,489**	**12,471,467**	**6,323,141**	**5,441,418**	**892,242**	**813,520**

EU-28	**6,088**	**43,347,261**	**25,115,763**	**23,528,351**	**3,417,743**	**2,666,537**

Country-by-country statistics – EFTA Member States

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Iceland	9	27,488	27,676	13,533	4,518	3,000
Liechtenstein	14	59,900	26,450	37,960	5,440	2,125
Norway	139	503,000	479,000	267,000	44,000	25,028
Switzerland	248	2,861,830	1,204,190	1,610,390	229,350	107,388
EFTA	**410**	**3,452,218**	**1,737,316**	**1,928,883**	**283,308**	**137,541**

Country-by-country statistics – EBF Associate Members

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Albania	14	11,770	4,750	9,431	1,262	6,738
Andorra	5	13,975	5,909	9,538	1,359	1,390
Armenia	17	9,120	5,970	5,260	1,420	11,773
Azerbaijan	30	15,150	6,490	9,540	2,090	17,415
Bosnia and Herzegovina	24	15,828	10,498	12,120	2,112	12,672
Republic of North Macedonia	15	8,190	5,210	6,040	880	5,933
Moldova	11	4,260	1,820	3,250	730	7,874
Monaco	31	118,800	25,000	43,800	n/a	2,635
Montenegro	15	4,407	2,929	3,459	513	2,497
Serbia	28	30,020	18,350	21,080	4,300	23,067
Turkey	53	640,000	396,000	337,000	70,000	207,715

The focus of this publication is on banks; however, the pure data on banks is not available from the ECB. For this reason, the EBF uses both the Credit Institutions (CI) and the Monetary Financial Institutions (MFI) depending on which type of data is available. Since banks represent around 75-80% of the entire financial system in the EU, the EBF deems it feasible to base the analysis of the banking sector on the ECB's CI and MFI data. For your convenience, the ECB definitions of CI and MFI are presented below:

Credit Institution (CI) = Any institution that is either (i) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account, or (ii) an undertaking or any other legal person, other than those under (i), which issues means of payment in the form of electronic money.

Monetary Financial Institution (MFI) = Financial institutions which together form the money-issuing sector of the euro area. These include: the Eurosystem, resident credit institutions (as defined in EU law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.