



# Banking in Europe:

## EBF Facts & Figures 2020

The data contained in this publication has been compiled from publicly available information released by the European Central Bank unless otherwise noted.

Unless otherwise noted, all graphs and tables have been produced to illustrate EU 28 data mentioned in the relevant chapters.

The data relevant for EFTA countries has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

Country pages presented in the country-by-country overview have been produced by each member of the European Banking Federation. Figures may not match those presented in the statistical annex due to the sources used by national banking associations i.e. European Central Bank and National Central Bank.

Figures presented in the charts throughout this document may not sum due to rounding.

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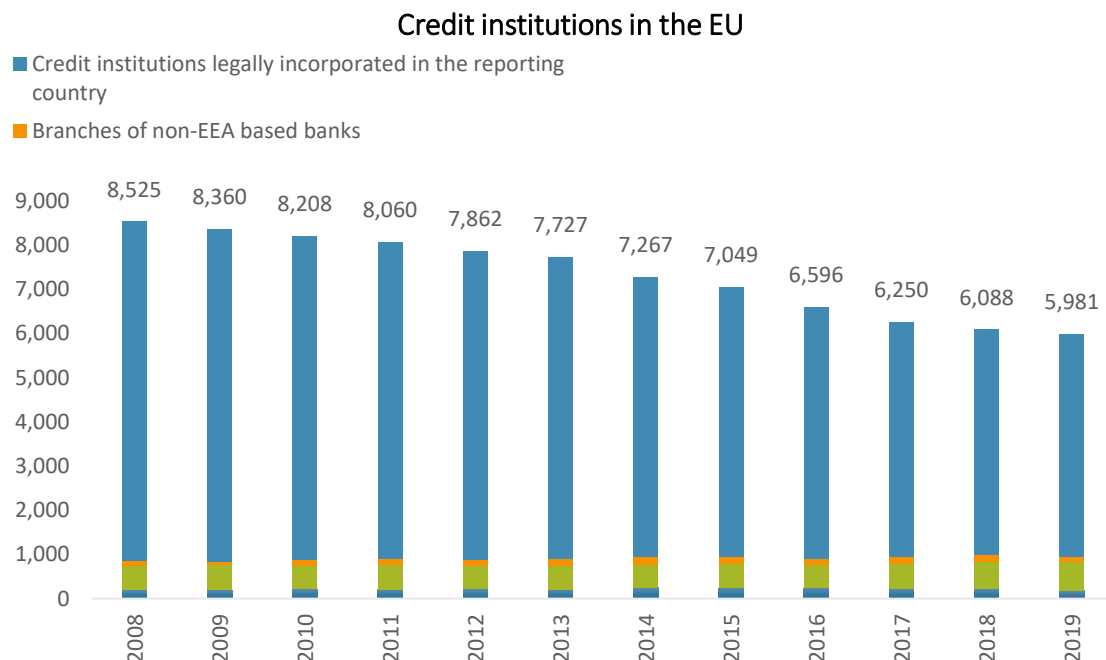
# Chapter 1

## Structure of the banking sector

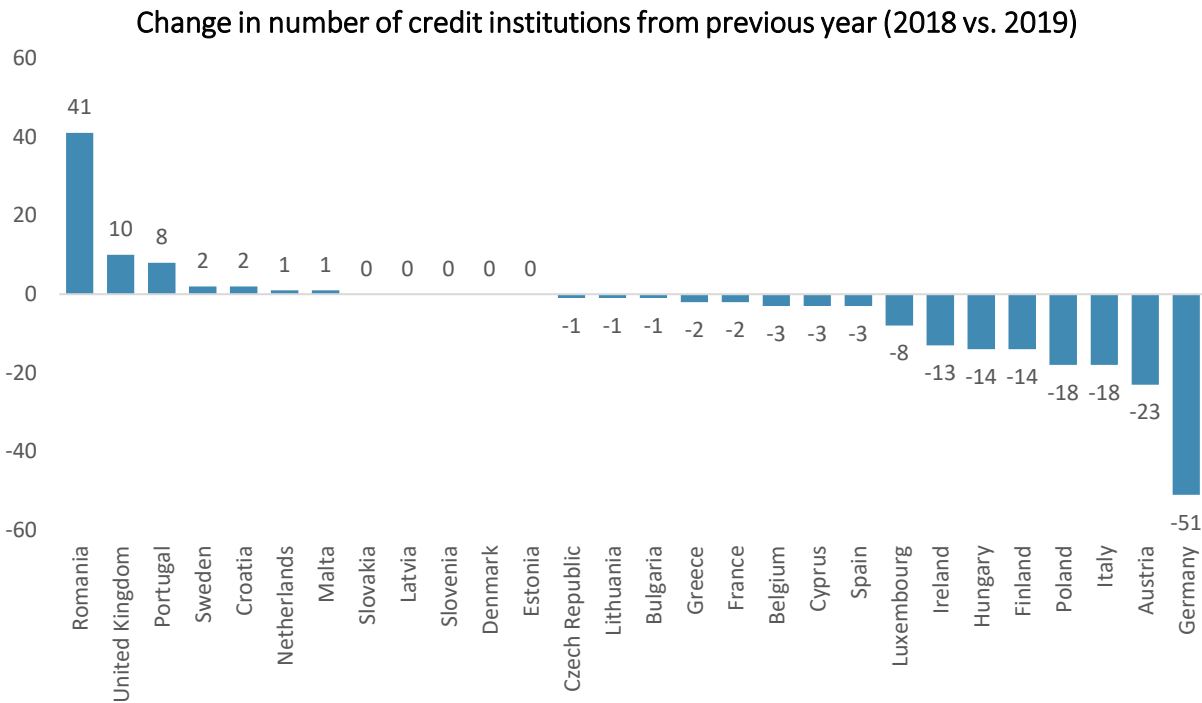
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### Number of credit institutions

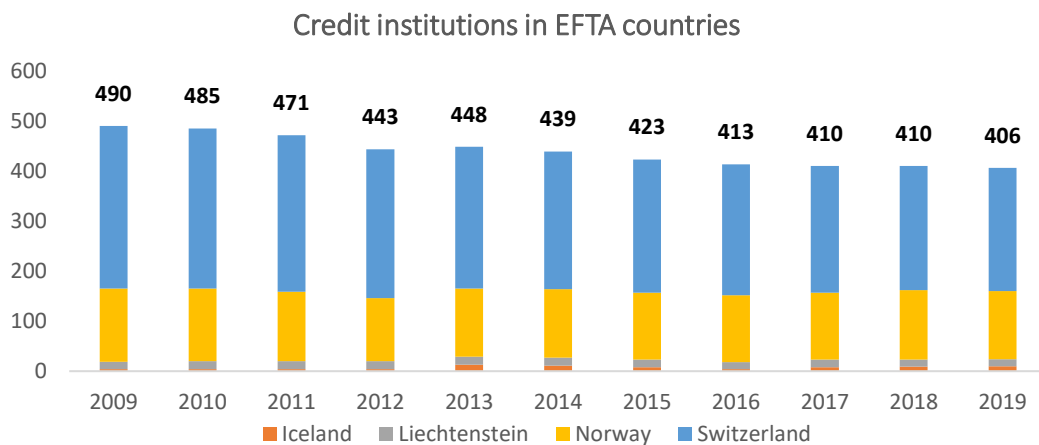
The downward trend in the number of EU-28 credit institutions, which started in 2009, continues ten years after, with the number falling to 5,981 in 2019. The decline however is the slightest (-107 units) since the trend started. This marked a decline of 1.8% compared to the previous year and a reduction of 2,544 (-30%), in total, since contraction started. Most of the consolidation continues taking place within credit institutions, legally incorporated into the reporting country, where the stock has fallen by 35% since 2008. Consolidation in the banking sector continues helping to reduce overcapacity and aiming to enhance profitability.



The countries that experienced the largest contraction in absolute terms in 2019 were Germany, leading for a second year in a row, with -51 units, Austria (-23), Poland (-18) and Italy (-18), according to the ECB. Romania (+41), UK (+10), Portugal (+8), Croatia (+2), Sweden (+2), the Netherlands (+1) and Malta (+1) were the only countries where the number of credit institutions increased.



The number of credit institutions in the EFTA countries was 406 in 2019, down from 410 in 2018. While the stock has fallen since 2009, the same as in the EU 28, EFTA experienced a lower pace with a decline of 17% compared to 30% in the EU-28. Although the number of credit institutions reached a new lowest level in 2019, the number has remained relatively stable over the last four years. While Liechtenstein and Norway have experienced only minimal changes since 2009, Switzerland has experienced the largest contraction over the last 10 years (-79). Iceland, in contrast, has more than doubled with 10 credit institutions in 2019.

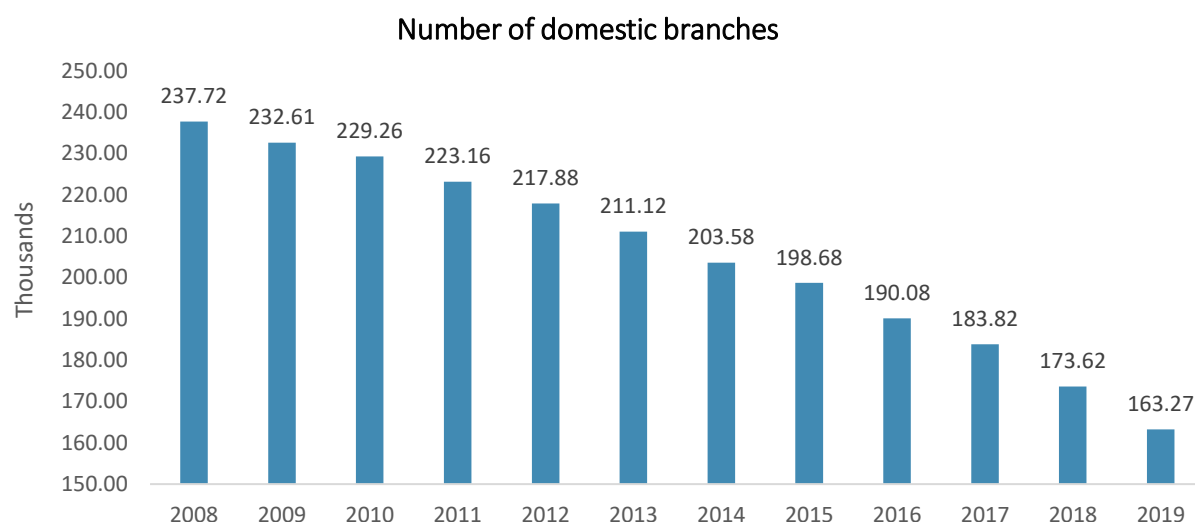


## Branches and subsidiaries

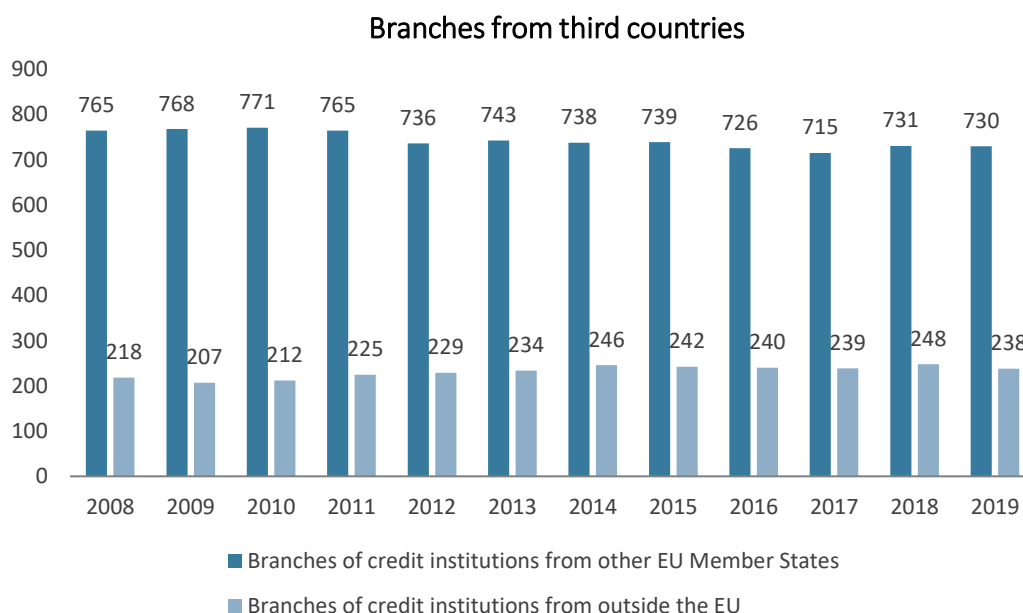
The rationalisation taking place in the EU banking sector continues to involve bank branches as the number of (domestic) branches continues to shrink, falling to about 163,000 by the end of 2019. Compared to the previous year, branches in the EU-28 decreased, at a steady pace, by 6%, or about 10,000 branches, the

largest drop since the financial crisis. The number of branches has fallen by 31% since 2008, or by almost 75,000. This trend continues reflecting the increasing use of digital banking by consumers as more than half of EU individuals, 58%, used internet banking in 2019, up from 54% in 2018, and 25% in 2007, when the data series began. This confirms that banking customers have continuously, widely and enthusiastically, adopting electronic payments as well as online and mobile banking. This has consequently reduced the importance of widespread bank branch networks, allowing banks to scale back further their physical presence.

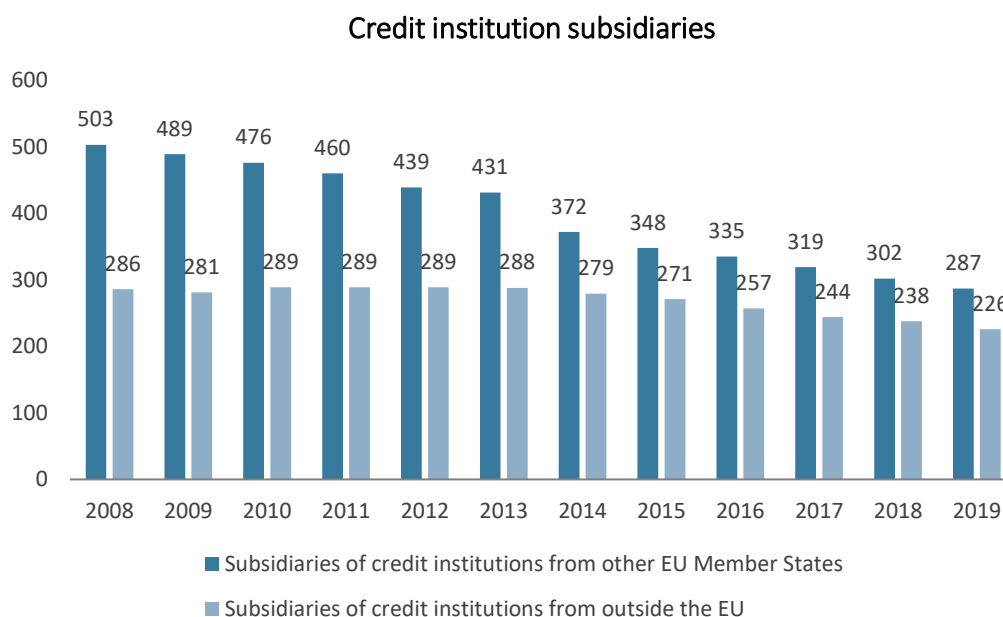
The countries that experienced the largest contraction in absolute terms in 2018 were Spain (-2,162) and Germany (-1,267 units). Only Bulgaria, for second year in a row, added branches (+278 units).



Already 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 968 foreign bank branches in the EU in 2019, of which 730 were from other EU Member States. The number of bank branches from third countries shows a marginal decline. Germany is the country with the highest number of foreign branches from other EU Member States, having 87 branches, followed by Spain with 78. The UK is the country with the highest number, 94, of third country branches, more than three times as many as the 26 non-EU countries branches present in Italy and France.



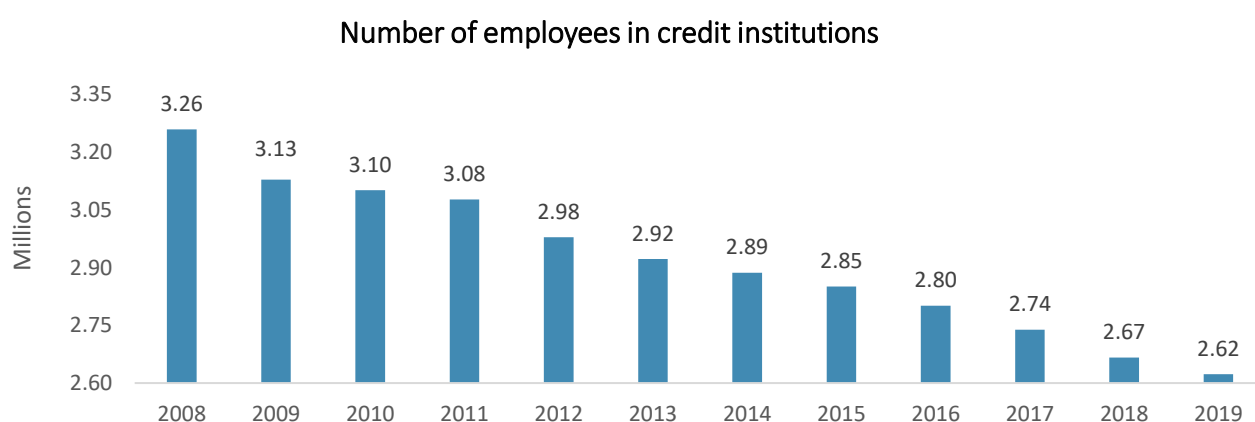
The overall number of subsidiaries continued declining for the twelveth consecutive year, falling by 4.4% to 513, the lowest level since 1997. The number of subsidiaries of credit institutions from other EU countries fell by 15 in 2019. The number of non-EU credit institutions' subsidiaries dropped to 226, down from 289 in 2010, the highest number since 2007.



The number of domestic branches in EFTA countries reached 3,507 in 2019 with Switzerland hosting almost practically three out four branches in the area. The total number of subsidiaries in EFTA countries was 27 in 2019.

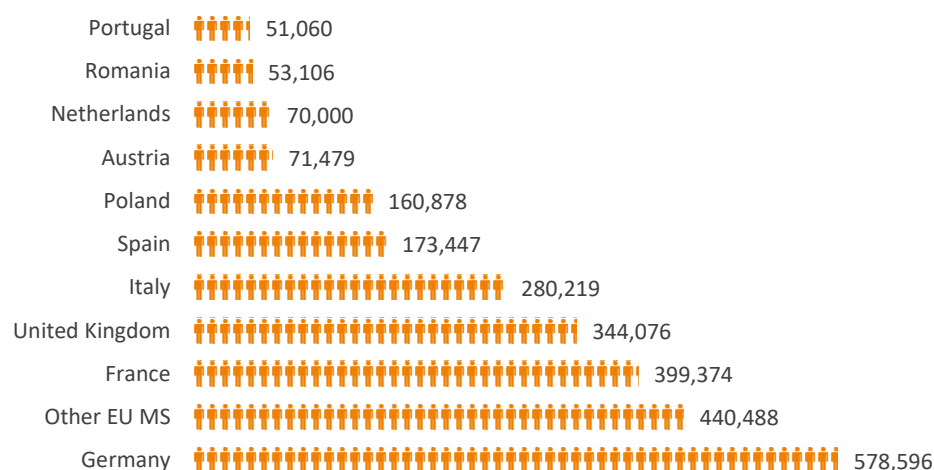
## Bank staff

Banks have a large stake in society as important job creators, as they employed a little over 2.6 million people in the European Union by end-2019. This is about 43,000 fewer than in 2018 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 continue to be the countries with the largest financial centres in Europe: Germany, France, United Kingdom, Italy and Spain. These five EU economies employ some 68% of the total EU-28 staff employed. Out of these five countries only Germany (+13,661) and Italy (+6,163) had a substantial increase in the number of employees in 2019. In the particular case of Italy, the workforce increased in 2019 was due to the incorporation by a large intermediary of a service company belonging to one same banking group. Without such operation, the total number of employees would have decreased in line with the trend observed in the 2007-2018 period.



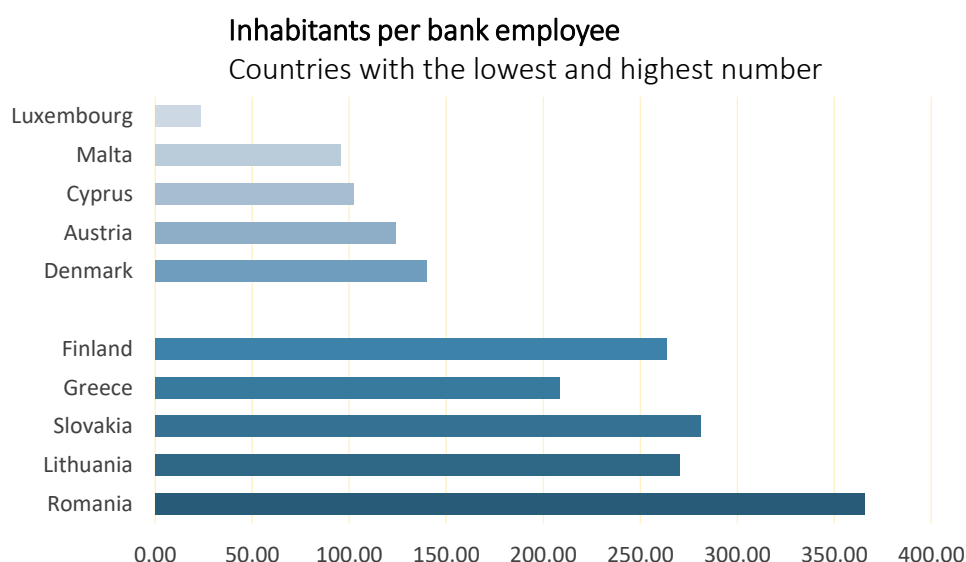
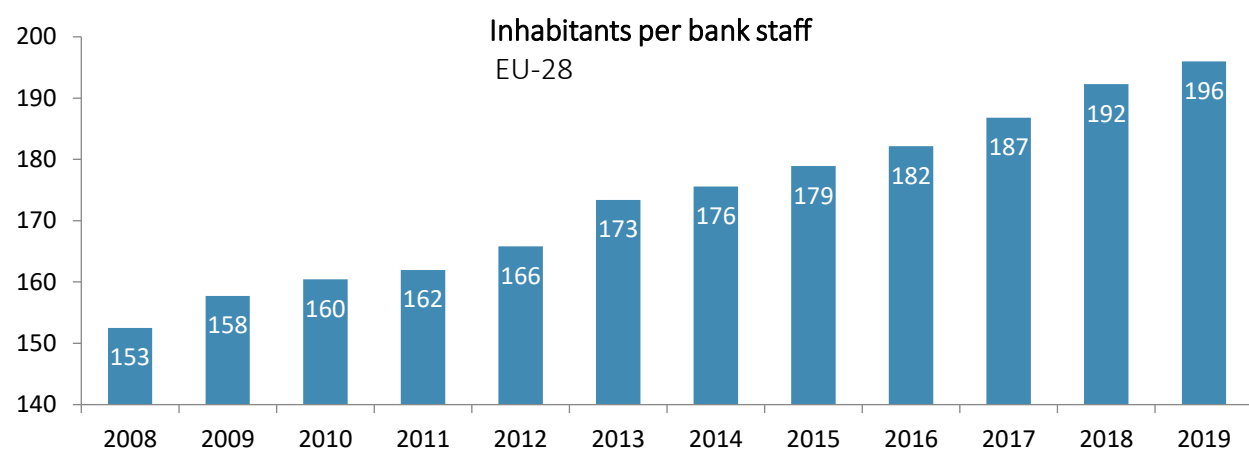
Despite having about 5,000 fewer employees than in 2018, Poland remained the country in Eastern and Central Europe with the largest number of jobs in the sector. Including EFTA countries, the number of staff employed in the banking sector was about 2.741 million.

### Top 10 EU countries with largest total bank employees

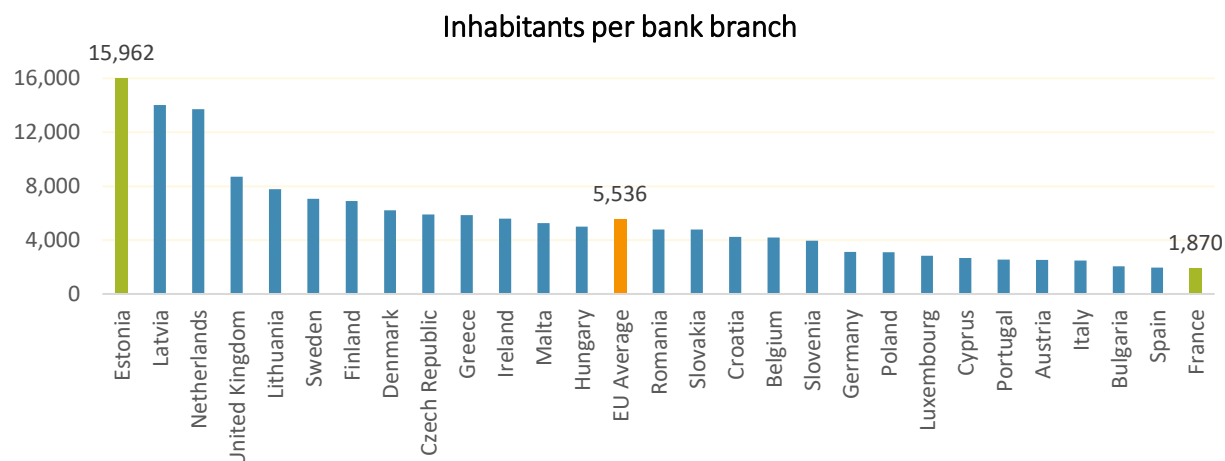


Banking and related financial services activities make a significant contribution to the EU's economy. Despite the drop-in bank employment in recent years, about one in every 100 jobs in the EU continued to be a banking job in 2019. In the past decade, between 3% and 4% of the value of compensation of employees and gross value added to the EU economy has come from financial services (excluding insurance and pension activities).

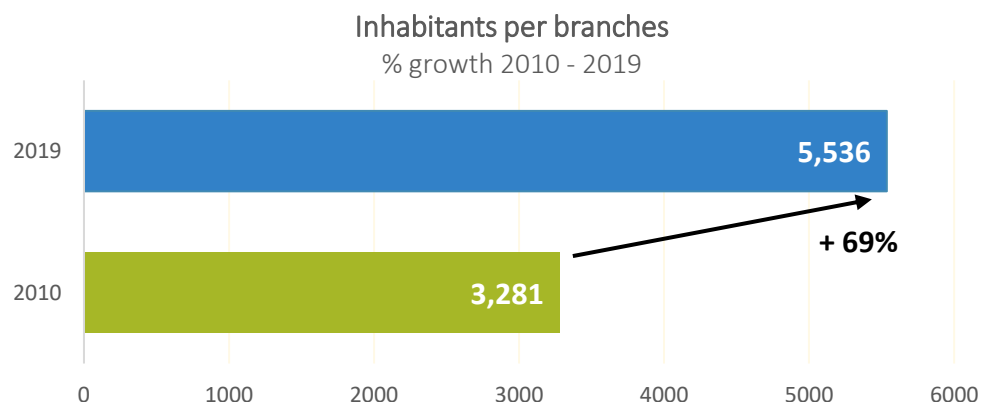
Also reflecting a contraction in the banking sector, the average number of inhabitants per bank staff member in the EU Member States slightly rose from 192 in 2018 to 196 in 2019. The average number has been rising each year since 2008, with 28% increase in total, when it was 153. Romania is the country with the highest number, 365 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. France is at one extreme, where each branch welcomes an average of 1,869 citizens, while at the other is Estonia where a branch provides services to an average of 15,961 inhabitants. The average number of inhabitants per bank branch in the EU-28 is slightly over 5,500.

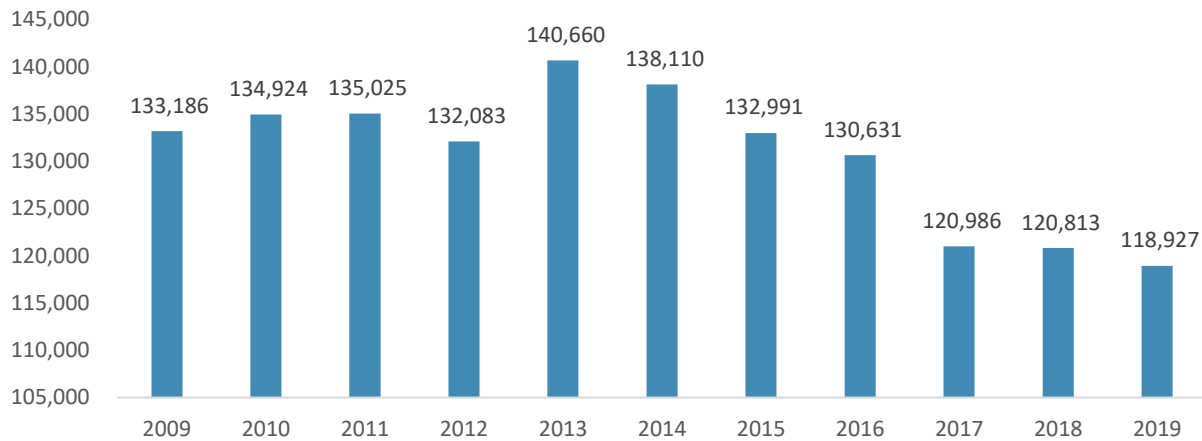


Compared to 10 years ago, a 69% increase has been registered in the average number of inhabitants per bank branch mainly due to the streamlining of the branch network in the EU 28.



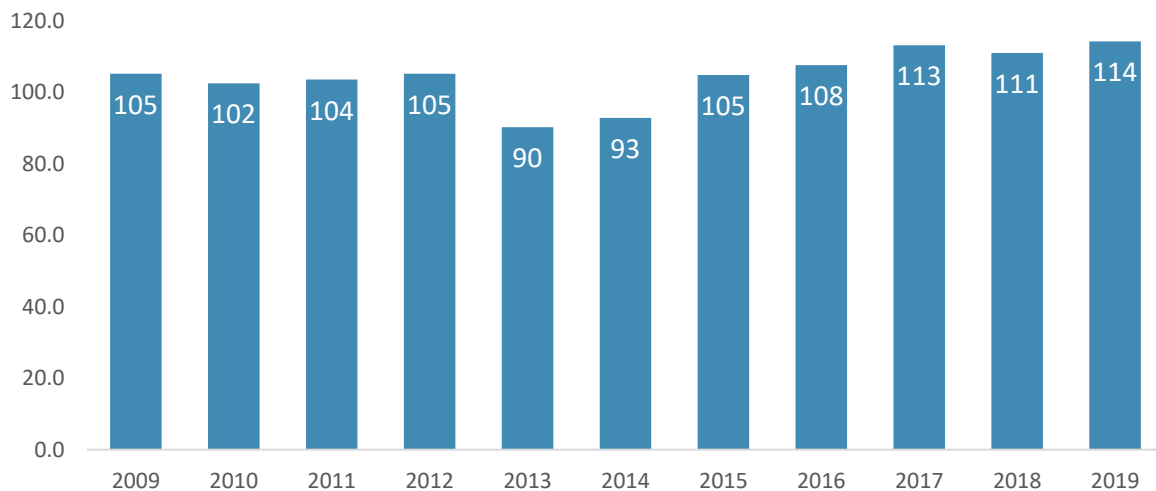
Meanwhile in the EFTA countries, the number of banks staff declined by 14% in 2019. This is about 1,800 fewer than in 2018, and 14,000 compared to 2009, making the lowest level in at least 10 years. Switzerland employed about 75% of the total EFTA staff. Only Liechtenstein added employees (78). Switzerland had about 1900 fewer employees followed by Iceland and Norway with 1,166 and 671 fewer employees respectively).

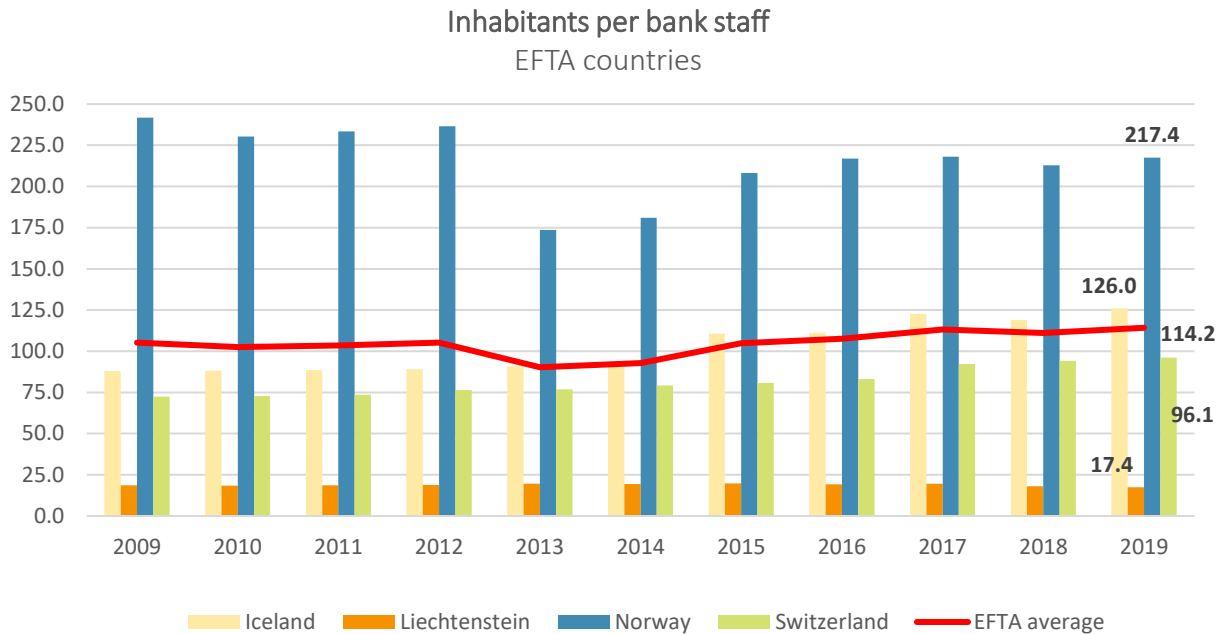
Number of of employees in credit institutions in EFTA coutries



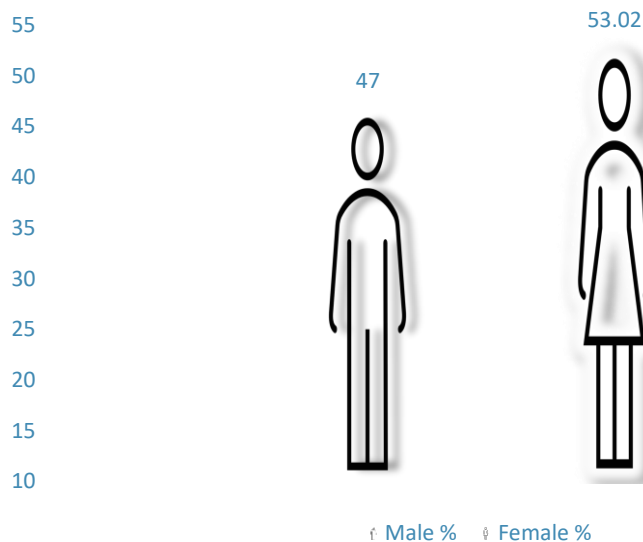
The decline in staff in the EFTA countries is refelected in the inhabitants per bank staff members rising to 114 in 2019 from 111 in the previous year. Norway leads the area with highest number, 217 inhabitants per bank staff member, followed by Iceland (126), Switzerland (96) and Liechtenstein closing with the lowest number of inhabitants per bank staff member (17).

Average inhabitants per bank staff in EFTA countries





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 2019. The gap was broader (750 basis points difference) compared to the 2018 (180 basis points difference). Along with other sectors, part of the initiatives is to encourage board seats for female executives; the average (17.6%) in 2019 was still below desired quotas but higher than in 2018 (12.9%) which confirms the rising trend.



# Chapter 2

## Supporting customers

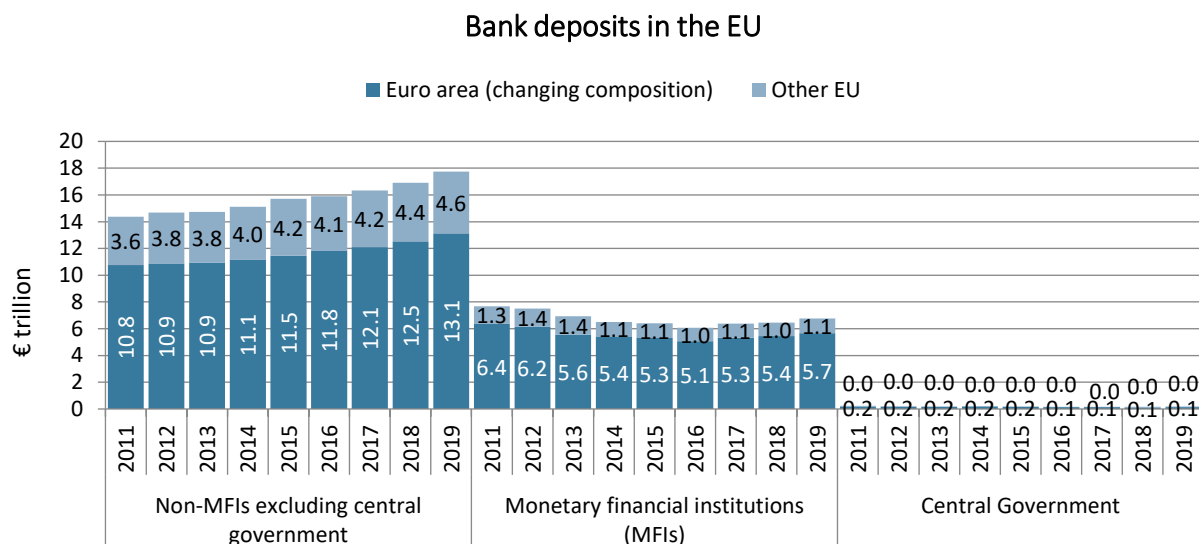
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### General trends

The core banking activities of raising deposits from and providing credit to customers are crucial for Europe's banks. Private sector deposits and loans grew in 2019, particularly for households and non-financial corporations.

### Deposits

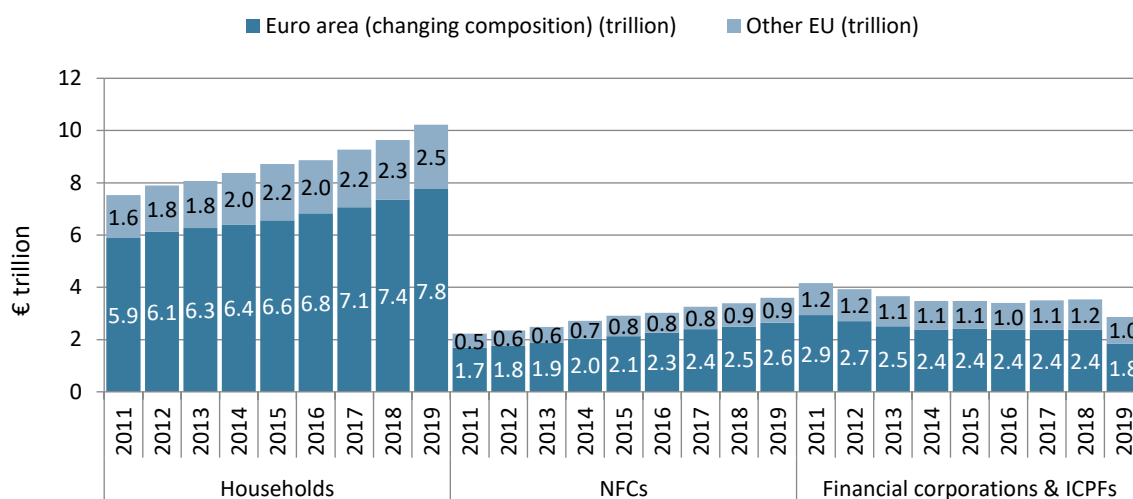
Domestic or euro area deposit liabilities in the EU rose by almost 5% to €24.7 trillion, excluding euro area deposits of non-euro area monetary financial institutions (MFIs). Monetary financial institution deposits saw the largest increase in percentage, 26%, in Denmark, while France had the largest increase in real terms, by about €182 billion. Deposits of non-MFIs excluding central government rose by €168 billion in France, by €137 billion in the United Kingdom and by €135 billion in Germany.



Total deposits from non-MFIs, excluding central governments, grew by 4.7% to €17.7 trillion in the EU at the end of 2018, with €13.1 trillion 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 6.2% year-on-year to €10.3 trillion and non-financial corporations (NFCs), up by 2.9% to €3.5 trillion. Germany, UK and France accounted for about two-thirds of the €586 billion increase in euro area household deposits in 2019.

### Deposits by counterparty sector

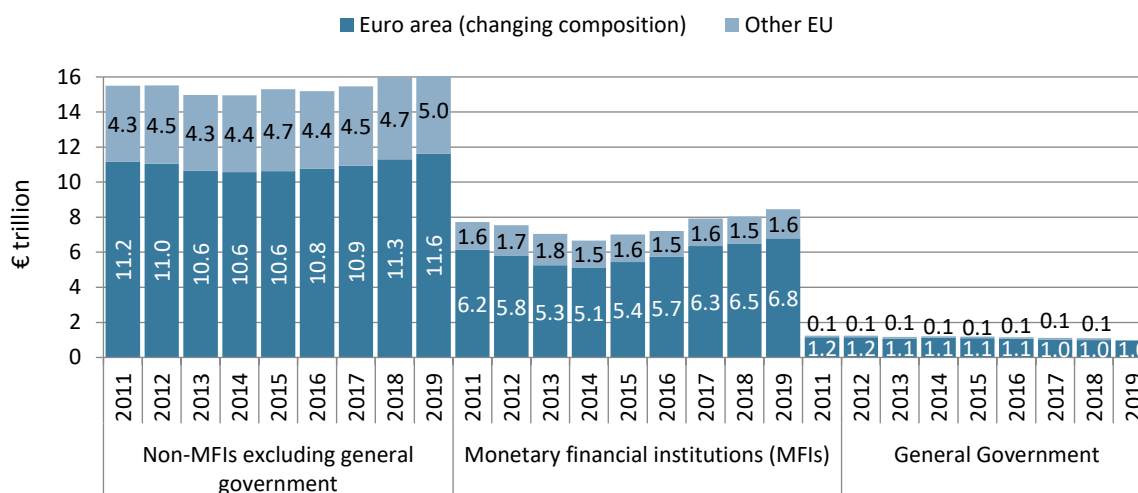


## Loans

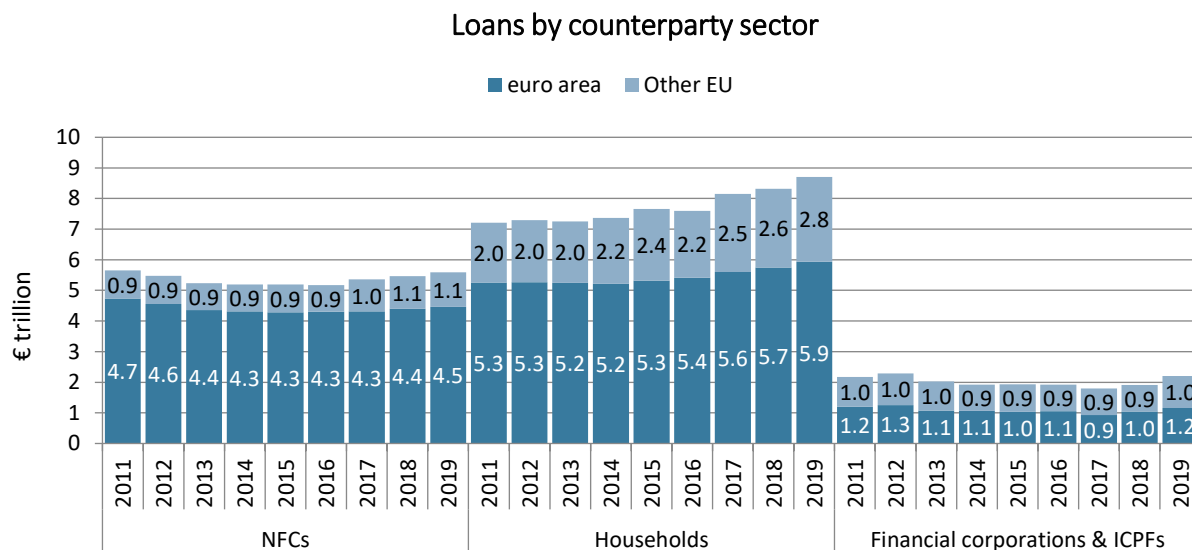
The total value of loans outstanding from EU MFIs increased by 3.9% in 2019 to more than €26.1 trillion. The increase mainly came from growth in loans to non-MFIs, excluding general government, which rose by 3.8% year-on-year to almost more than €16.6 trillion.

As with deposits, United Kingdom, France and Germany accounted for about three-quarters of the €1.0 trillion increase in loans outstanding in the EU.

### Bank loans in the EU

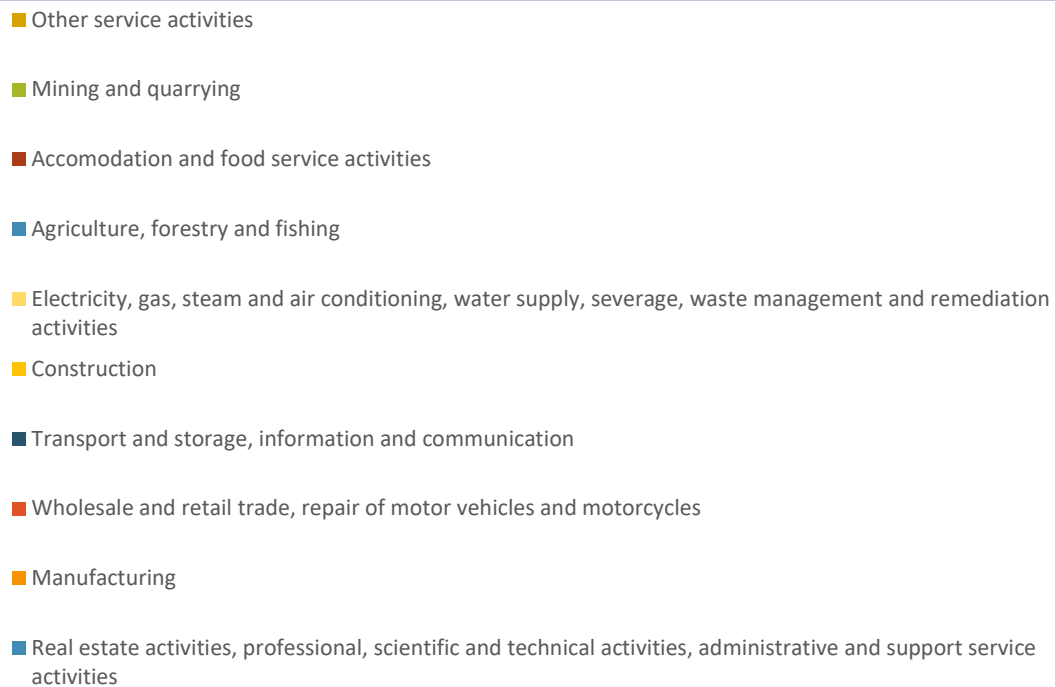
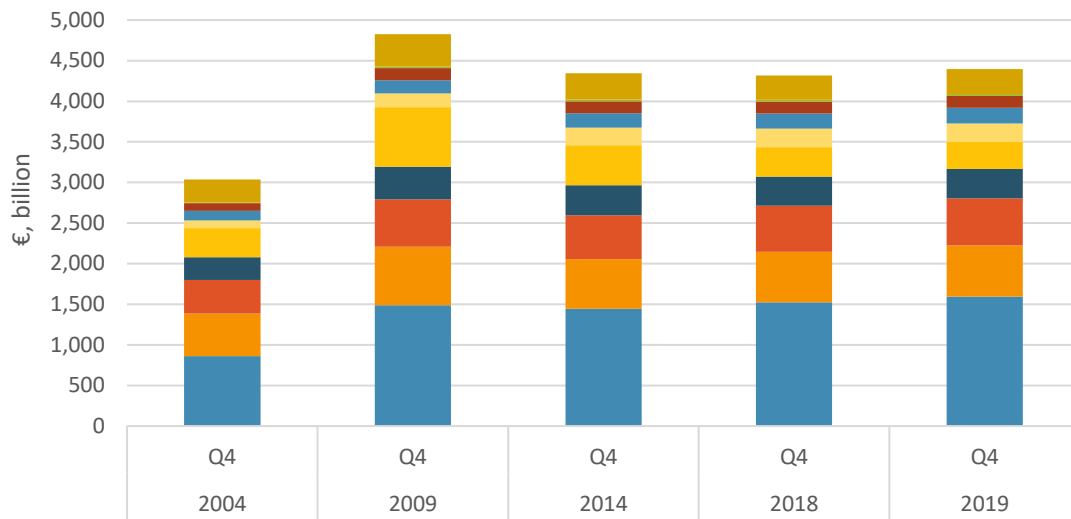


Loans to EU households rose by 4.8% in 2019 to €8.7 trillion. Loans to households in the euro area grew for the fifth successive year, adding almost €730 billion on loans outstanding since 2014 and slightly over €1.0 trillion since 2008. NFC loans outstanding in the EU rose by 1.8% in 2019 to almost €5.6 trillion, the highest level since 2011.



Real estate activities, professional, scientific and technical activities and administrative and support service activities accounted for more than one third (37.6%) of loans outstanding at the end of 2019, and up from 30.8% in Q4 2008. Manufacturing and the wholesale and retail trades accounted for 14.3% and 13% respectively.

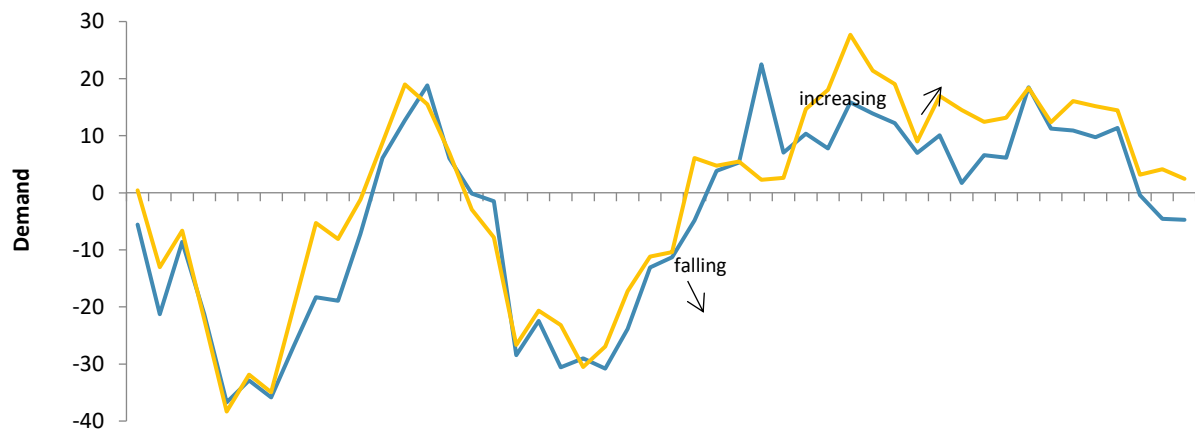
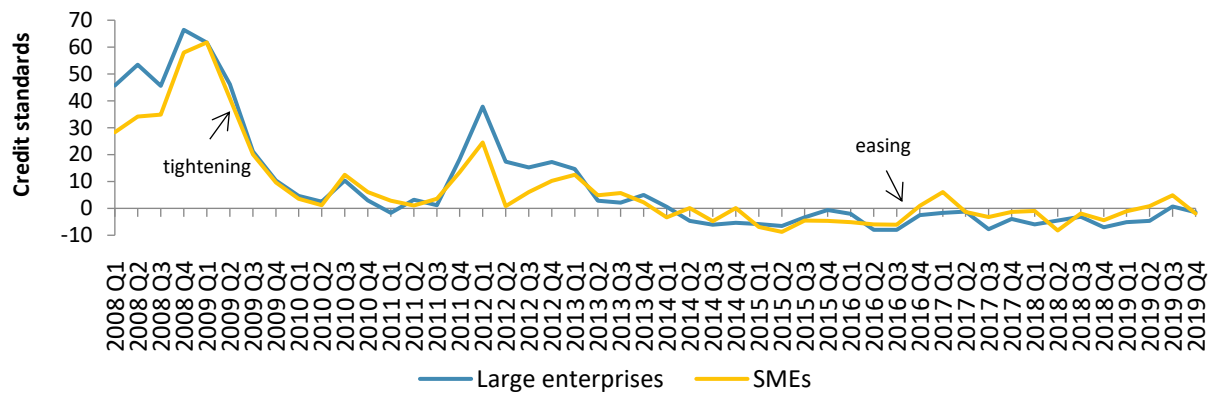
### MFI Loans to NFCs by economic activity



Lending standards, i.e. banks' internal guidelines or loan approval criteria, continued to ease in the euro area throughout 2019 for loans to both SMEs and large enterprises, reflecting the general trend evident since 2014.

Net demand for new lending declined in 2019, with the net percentage of banks reporting a decrease to both SMEs and large enterprises, with a negative net percentage for large enterprises reaching to -4.7%.

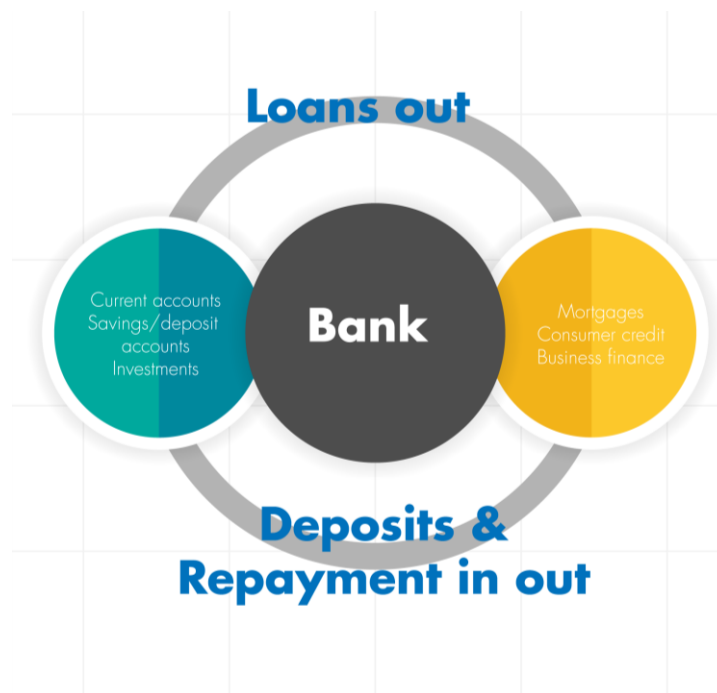
## Bank lending survey



## 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.

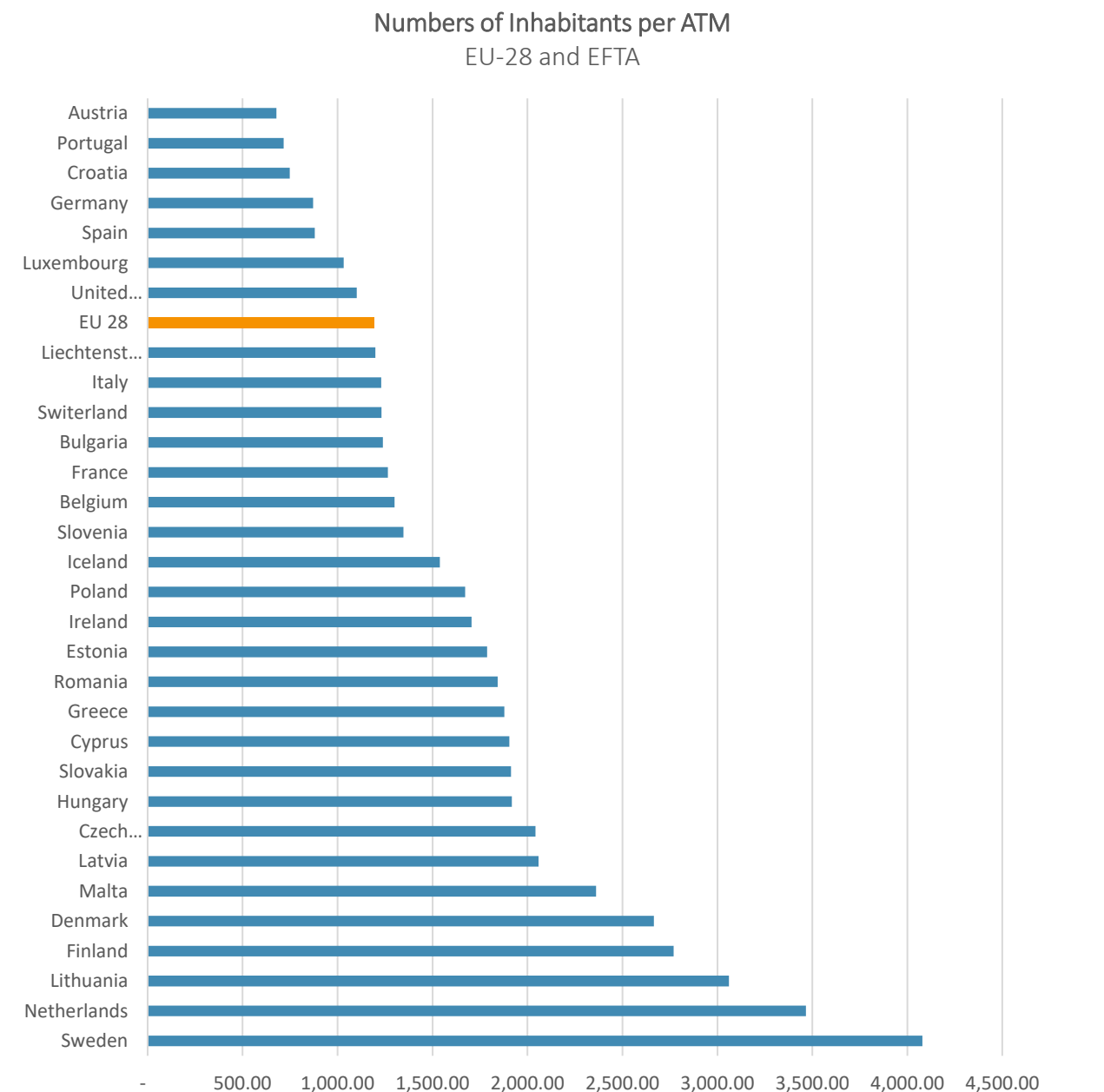
Just as money can be created, it can also be destroyed. For example, in the case of a mortgage being used to purchase a second-hand property, the purchaser could use the proceeds from the sale to pay an existing mortgage, effectively bringing the amount of money created back to zero.

Banks are also key players in national and international payment systems. Almost 98 billion cashless payments were made by non-MFIs in the EU area in 2019 and 150 billion in EU-28. Slightly less than half (46.6 billion) of those were card payments, while about one quarter were credit transfers (22.3 billion) or direct debits (21.3 billion). In the EU-28, cashless payments accounted for slightly over 150 billion transaction with United Kingdom, France and Denmark leading with about 50% of the total payments.

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 2019 about 430,000, which is an average of 1,192 inhabitants per ATM, down from 1,112 in 2014 when Europe reached the highest number of ATM with 455,711. This decline signals the increasing lower demand for cash confirming the move towards the increasing use of digital banking and payments. The number of ATMs in the EFTA countries was about 7,000 in 2019 with an average of 1,323 inhabitants per ATM.

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 678 and 716 respectively. At the same time the least number of inhabitants per ATM was registered in Sweden, Netherlands and Lithuania. In each of these countries there are between 4,079 and 3,060 inhabitants per device.



# Chapter 3

## Banking sector performance

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### Bank capital

European banks have continued building a solid capital position and strengthening their balance sheets throughout 2019. The recapitalisation effort that European banks have made following the 2008 financial crisis makes the European banking sector more resilient and robust. Capital, with the core equity Tier 1 ratio of EU banks on a fully loaded basis, which includes only capital of the highest quality, was at 14.3% in June 2019, same as 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 since 2011 and reaching zero in June 2017, mainly by raising new capital and retaining earnings, banks in the European Union have maintained the zero shortfall in 2019. Tier 1 and total capital also continue showing a positive trend, reaching 15.6% and 18.9% respectively in June 2019 up from 6.80% and 8.10% respectively in 2011.

In 2019, all banks met, once more, the liquidity coverage ratio above the minimum. Furthermore, the shortfall of all categories of capital in 2019 remained around the lowest levels.

TOTAL ***	Jun-2011	Dec-2011	Jun-2012	Dec-2012	Jun-2013	Jun-2014	Jun-2015	Jun-2016	Jun-2017	Jun-2018	Jun-2019
Common Equity Tier 1 Capital	5.3%	7.0%	7.8%	8.3%	9.0%	11.4%	11.8%	12.8%	13.8%	14.3%	14.30%
CET1 shortfall (€bn) at 4.5%	29	18	9	13	15	0.0%	0	0	0	0	0
CET1 shortfall (€bn) at 7% *	277	225	130	96	65	1.68	1	1	0	0	0.2
Tier 1 Capital	6.8%	7.2%	8.1%	8.5%	9.2%	12.1%	12.3%	13.4%	14.7%	15.7%	15.6%
Total Capital	8.1%	8.3%	9.1%	9.7%	10.9%	14.3%	14.7%	16.1%	17.4%	18.5%	18.9%
Tier 1 Capital shortfall (€bn) *	411	350	249	196	120	4.54	8	4	0	1	0.8
Total Capital shortfall (€bn) *	544	479	383	304	190	16.42	18	6	0	1	0
Leverage Ratio (3%)	2.8%	3.0%	3.1%	3.0%	3.1%	4.0%	4.4%	4.7%	5.0%	5.2%	5.1%
Leverage shortfall (€bn)	N/A	N/A	N/A	133	64	2.10	9	3	2	0	2.5
Liquidity Coverage Ratio	71%	76%	N/A	113%	110%	115.8%	128%	135%	143%	147%	147%
LCR shortfall (€bn) **	1,200	1,200	N/A	225	262	36.10	33	3	0	21	4.7
Net Stable Funding Ratio	89%	93%	95%	96%	N/A	103.2%	105%	108%	112%	114%	113%
NSFR shortfall (€bn) **	1,800	1,400	1,200	959	N/A	0.0%	341	159	51	33	33.7

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

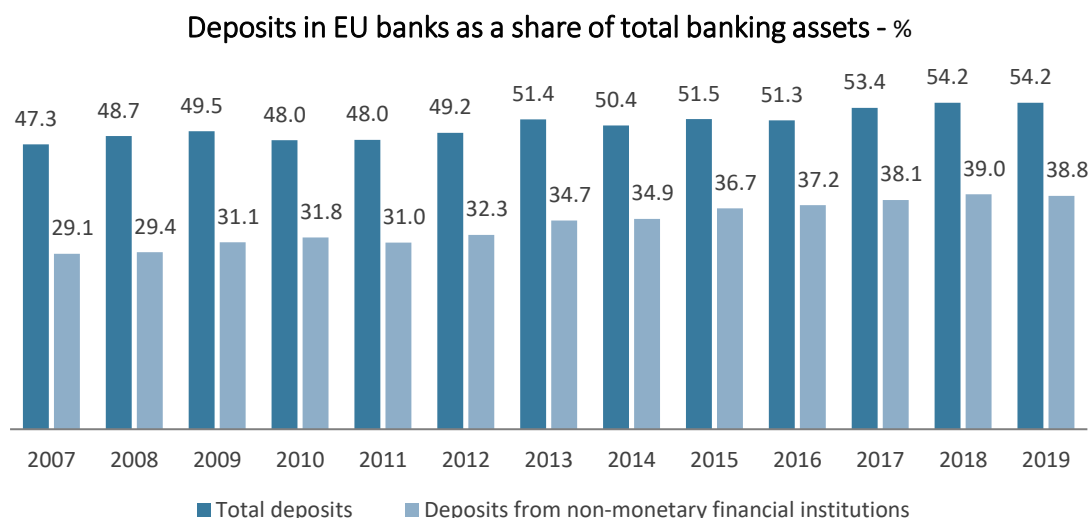
\*LCR figures from EBA report on liquidity measures \*\*Including G-SIB surcharge \*\*\*Overall shortfall group 1 and group 2 \*\*\*\* Assumption of weights: 80% G1; 20% G2

### Bank funding

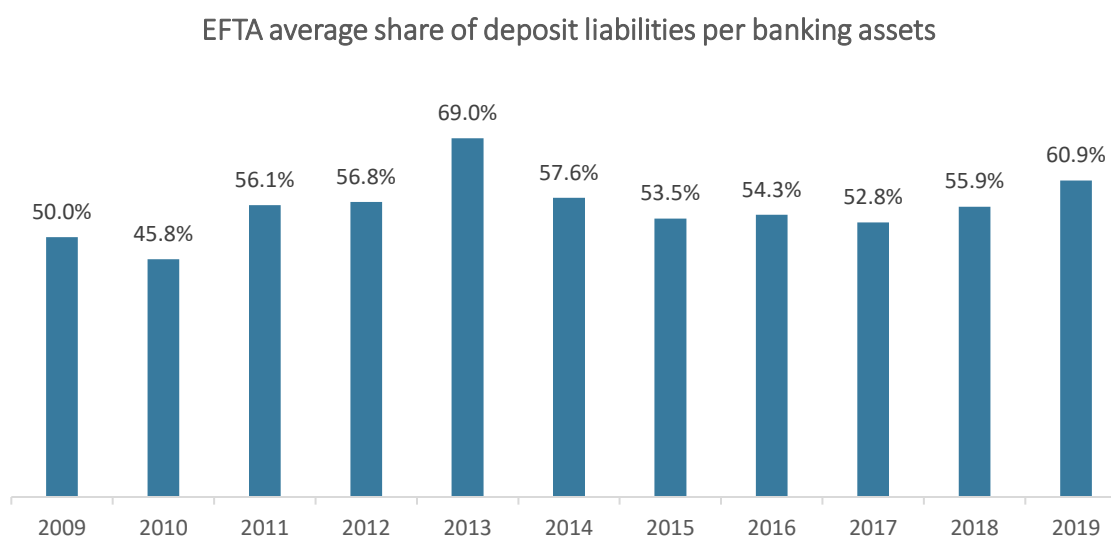
The share of deposit liabilities over total assets remained in 2019 at 54.2%, in line with the positive trend started in 2007 (47.3%) that reveals the shift towards greater reliance on deposits as a source of funding.

The rise in the share of non-banks' deposits to total assets slightly declined from 39% in 2018 to 38.8% in 2019.

The country breakdown for total deposits shows that domestic deposits were equivalent to less than half of the assets in Denmark, Ireland, Sweden, Finland, UK and Luxembourg. 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 Lithuania, Bulgaria, Croatia, Slovenia, Slovakia, Estonia, Poland, Portugal, Latvia, Italy and Romania, all of which had deposits equivalent to 70% or more of assets.



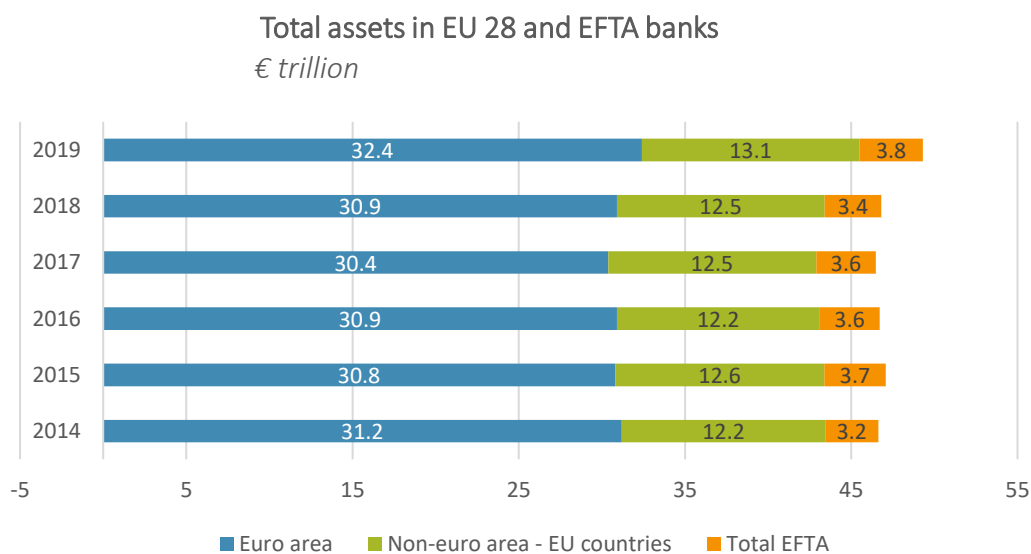
The EFTA countries experienced a substantial increase in the share of deposit liabilities over total assets in 2019 reaching 60.9% up from 55.9% a year earlier, becoming the second highest level since 2009, only after the 69% reached in 2013.



## Assets

The amount of total assets held by EU banks expanded in 2019 after a few years of consecutive contraction. This time enlarged by approximately €3 trillion from the previous year amounting to €49.3 trillion (€32.4 billion in the euro area and €13.1 billion in the non-euro area). The expansion came basically from gain in the total assets in the euro area countries (4.8%).

Considering the country breakdown, the country with the strongest boost in absolute terms were France and Denmark with €150 and €133 billion (13.6% and 12.7% respectively). Among the four largest European countries, only France registered a substantial positive result in their stock of assets, followed by Germany with 6.9%. Italy and Spain showed minimal increase around 1%. Only four countries experienced reductions in their stocks of assets: Malta (-6.8%), Cyprus (-6%), Latvia (-0.3%) and Portugal (-0.6%).

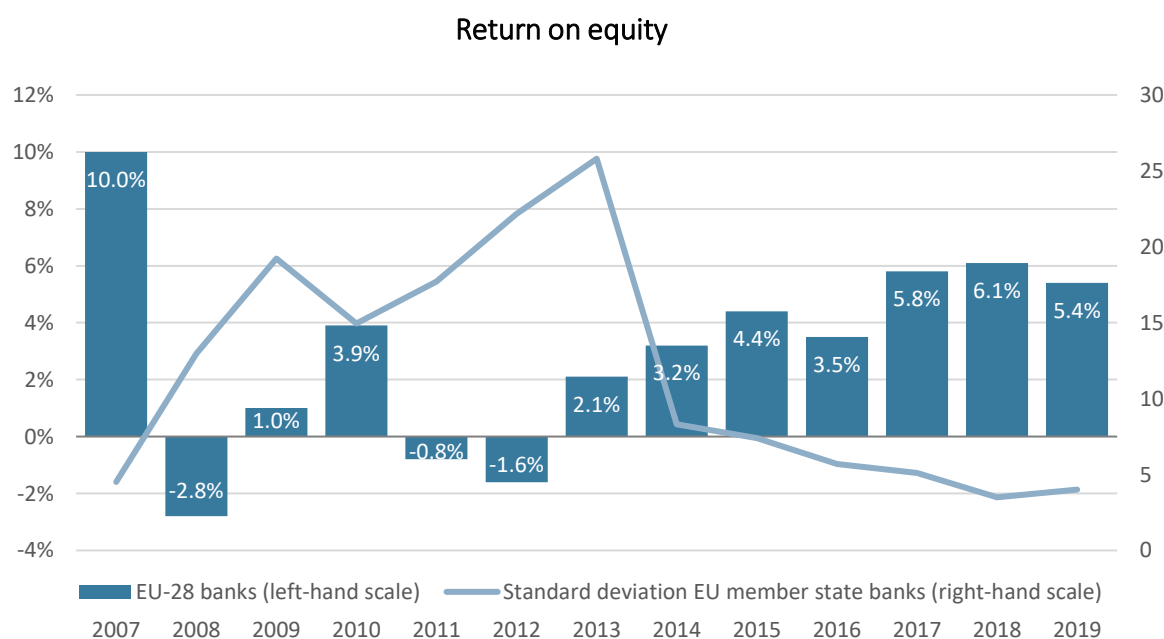
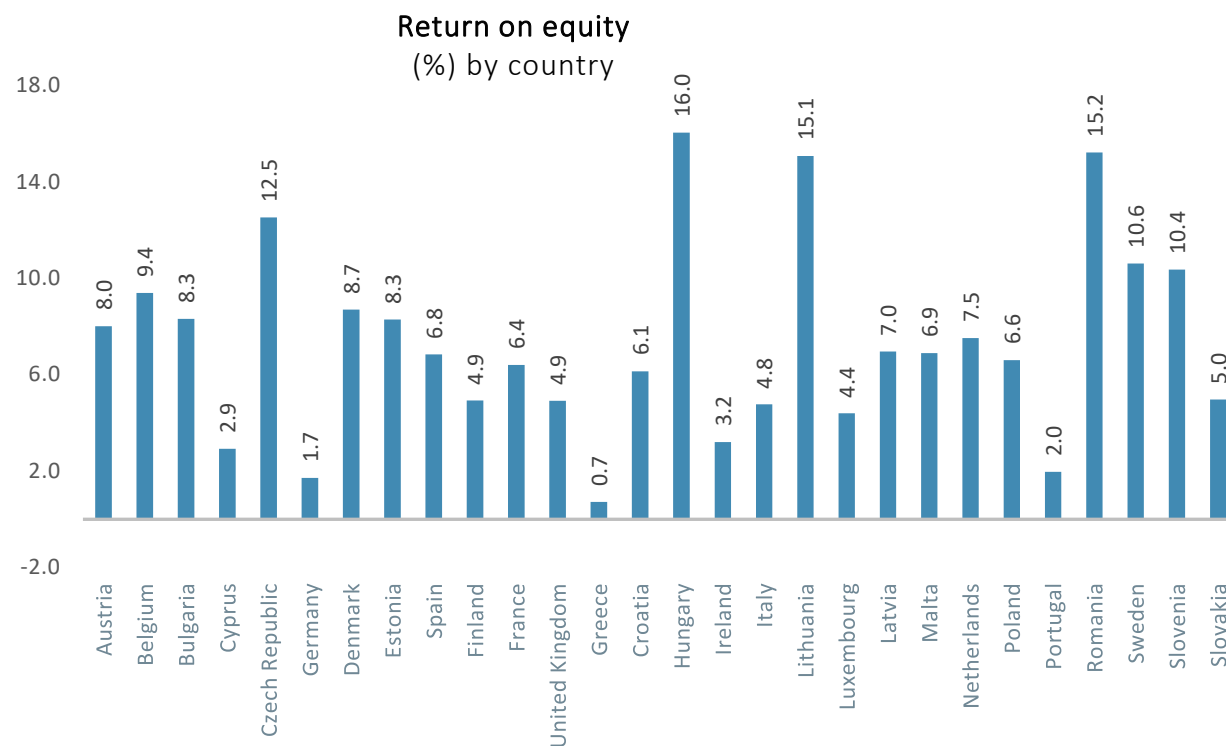


## Bank profitability

With the ECB maintaining its ultra-low interest rates throughout 2019, profitability remained a key challenge facing European banks. The return on equity (ROE), a key indicator to assess the banking sector's attractiveness for investors has been slowly recovering. The ROE of European banks was 5.4% in 2019 for EU 28, down from 6.1% in 2018. Despite the decline, due to a more moderate rise in several countries compared to 2018, this remains at similar levels as in previous years albeit still far from the 10.6% registered in the outset of the financial crisis.

Reflecting on the national breakdown, all countries have a positive ROE, for first time since 2007, with six countries having a double-digit ROE, led for the second consecutive year, by Hungary (16%), Romania (15.2%) and Czech Republic (12.5%). Only Greece (0.7%) registered a result lower than 1% in 2019. The difference between the highest (Hungary) and lowest (Greece) ROE was 15.3 percentage points in 2019, 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. After reaching 3.5 in 2018, the dispersion is at 4.0 in 2019, still less than the 4.5 seen in 2007 before deviation started.



# Chapter 4

## Special Chapter

### COVID-19

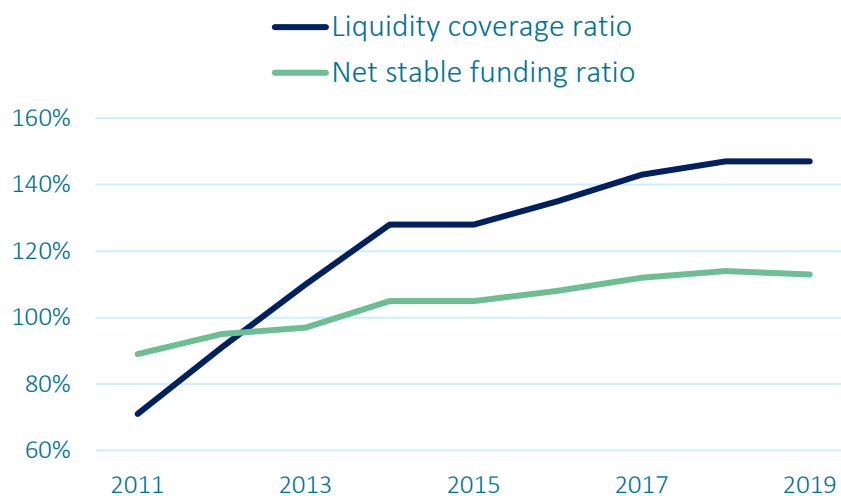
#### What happened?

##### Resilience

After the Great Financial Crisis (GFC) of 2008/2009, the Basel Committee on Banking Supervision kicked off the post-crisis regulatory reform agenda in December 2010 with its publication of the [Basel III standards](#). The Basel III standard was then implemented in the EU with the Capital Requirements Regulation and the Capital Requirements Directive IV. In 2017, the Basel accord from 2010 was superseded by the BCBS document [Basel III: Finalising post-crisis reforms](#). The final Basel III reforms are now due to be implemented by member jurisdictions by [January 2023](#).

The post crisis regulatory reform agenda, which started with Basel III, has addressed many significant shortcomings of the pre-crisis regulatory framework that were revealed during the GFC. In 2008 and 2009 it became apparent that banks were not sufficiently capitalised to withstand the most severe shock to the financial system since the Great Depression. The effort made by policymakers to shore up the banking system and increase its resilience is also reflected in the development of the regulatory bank capital. Since

##### Liquidity Ratios

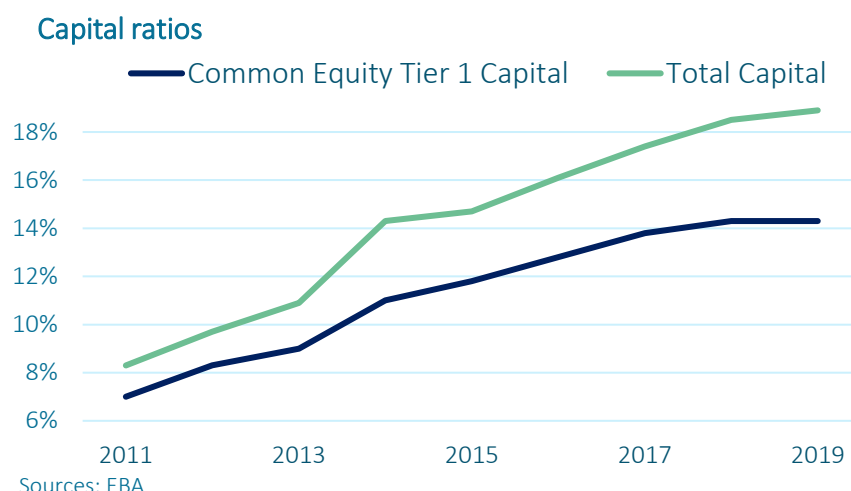


June 2011, the Common Equity Tier 1 (CET 1) ratio, which comprises capital of the highest quality, increased to above 14% in June 2019 and is well above the minimum requirement of 7%. The situation for the leverage ratio is very similar with buffers currently at more than 5% and thereby standing comfortably above the minimum requirement of 3%. Those figures have also been confirmed by the [EBA's Spring](#)

[2020 EU-wide transparency exercise](#), which reports very similar figures for the CET1 ratio as well as the leverage ratio for end 2019.

The strong capital position of the EU banking sector became an important factor when the Corona crisis hit European banks in Spring 2020. Thanks to the high levels of CET1 capital and the support measures of regulatory and supervisory institutions, banks were able to maintain lending to the economy without having to restrict, excessively, the amount of credit given to customers, a thereby reinforcing the economic downturn.

The situation for the liquidity figures which are equally important for the stability of the banking sector draws a similar picture. After the initial reforms, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have reached levels above the minimum requirement, which for both ratios, is currently



100%. Those ratios are designed to increase the resilience of the financial system by allowing banks, in the case of the LCR, to “[survive a period of significant liquidity stress lasting 30 calendar days](#)”, and incentivising banks to seek more stable sources of funding in the case of the NSFR. The strong position for the LCR was also confirmed by the [EBA at the outset of the Coronavirus crisis](#) with figures “well above the minimum level of 100%”.



Consequently, the EU banking sector has entered this shock, induced by the outbreak of the Coronavirus crisis, and the following restrictions introduced by governments, designed to limit the impact on public health, in a much better position than twelve years before. Therefore, it is clear that ten years after the first Basel III standards, policymakers, together with the banking sector, have managed to improve, significantly, the resilience that supports banks in managing significant stress on the financial system.

## Bank policy reaction

In 2008, after the shock of the Great Financial Crisis the policy reaction was perceived by many as too little and a bit too late. This time around, the response to an unexpected crisis has been firm, substantial, and quick. More importantly, EU authorities have coordinated a combined action plan on the various components of the policy toolbox. As a result, the upsurge in market volatility was quelled in a short time.



On monetary policy, the [ECB announced a comprehensive package of measures](#) including additional long-term refinancing operations (LTROs) bridging the period from March to June 2020 to provide liquidity at favourable terms in the aftermath of the Covid-19 shock, as suggested by the EBF. The envelope of the Pandemic Emergency Purchase Programme (PEPP) was increased by €600 billion on 4 June to a total of €1,350 billion.

On regulatory policy, co-legislators have agreed in a record time on a [quick fix](#) that, together with [ECB supervisory flexibility](#) measures, have permitted EU banks to keep the level of lending without their capital ratios deteriorating.

Rounding off the previous measures, the [Commission launched a major recovery plan for Europe](#) including a new recovery instrument of €750 billion with new financing raised on the financial markets.



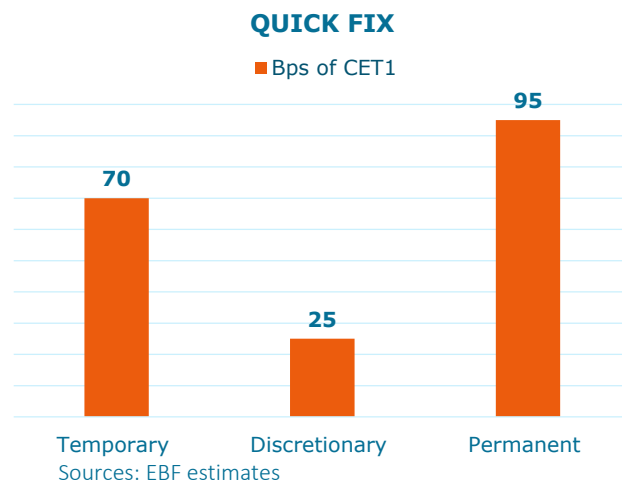
Banks are now perceived as part of the solution to the health crisis. The maintenance and enhancement of the level of lending is a common objective of banks and authorities for the sake of economic recovery. On 11 March 2020, right after the Covid-19 outbreak, the [EBF called on the EU authorities for a coordinated programme](#) to put the EU banking system in the best conditions to withstand the initial shock and keep on serving the economy. That programme was articulated in a series of [EBF recommendations on monetary policy, supervisory flexibility and regulatory quick fix](#), many of which were taken on board. According to EBF

estimates, EU banks obtained an average relief of almost 200 basis points from the CET1 ratio, which has been used to absorb the initial impact of the crisis at the 2020 closing and start 2021 without major disruptions to the resilience of the banking system at large.

Altogether, the minimum CET1 capital requirement for the EU banking system has been reduced, on average, to almost 200 bps with the battery of regulatory and supervisory measures adopted by EU authorities. This is allowing banks to keep up the level of lending to the economy.

According to EBF estimates, three types of measures can be distinguished by their nature:

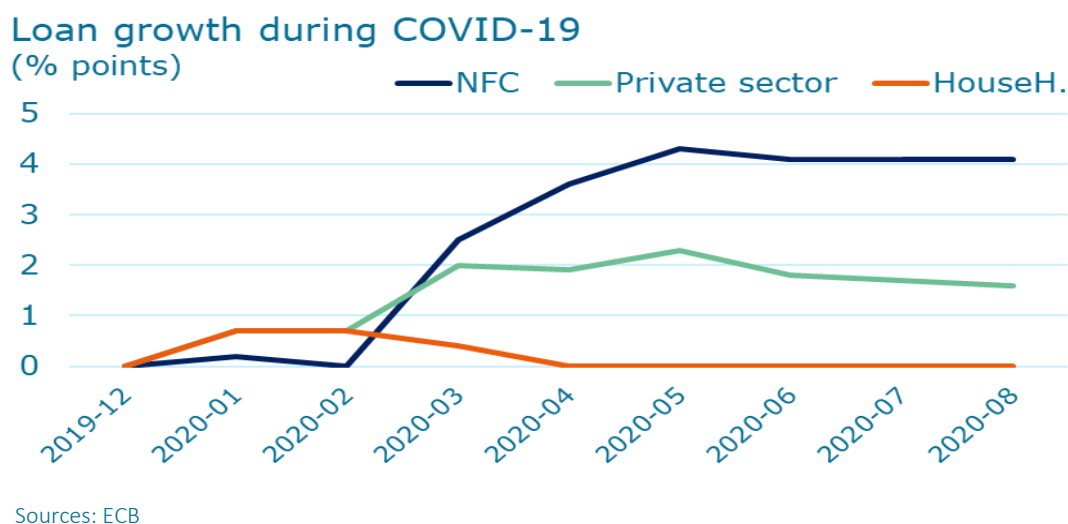
- temporary reductions amount to approximately 70 bps;
- discretionary reductions are up to 25 bps;
- permanent reductions, many of which were anticipated in the CRR3 package which enters into force on 1 January 2021, summing up around 90 bps.



## Support the economy

The outbreak of the COVID-19 pandemic has resulted in disruptive effects to the European economy. Many corporates and households are struggling to keep up with their payment schedules of specific financial facilities granted before the pandemic. The banking sector has responded swiftly to the risks and shocks that the spread of the pandemic has brought by rapidly operationalising private and public moratoria schemes under the EBA Guidelines.

Banks are also supporting consumers by further increasing the communication with them especially via digital channels. In this context, the European banks have proved to be part of the solution in dealing with the economic consequences of the pandemic. Such actions permitted European banks to keep fuelling the private sector by providing loans to European borrowers.



Since the launch of moratoria schemes under the [guidance of the EBA on 2 April 2020](#), EU banks have made a huge effort to postpone the payment of loans of clients affected by the crisis. As of June 2020, there has been a significant use of the moratoria tool with payments postponed for an amount of €871 billion, according to EBA, in order to alleviate the pressure of the crisis on banks' clients. In total, according to EBF estimates, more than 8 million individuals have benefitted from the deployment of national moratoria schemes in Europe. More specifically, more than 5 million households have been able to postpone their payments with the aid of their banks, while more than 2 million companies are also benefitting from moratoria conditions on their loan payments. Overall, more than 85% of the borrowers' requests for postponement of payment schedules were accepted by the banking sector.

## What is next?

### Real-life stress test

After the Global Financial Crisis (GFC), stress testing has been an important tool in the supervisory toolkit to assess banks' resilience to economic stress scenarios. The stress tests are then used by the ECB to assess whether additional measures need to be taken to strengthen the banks' resilience.

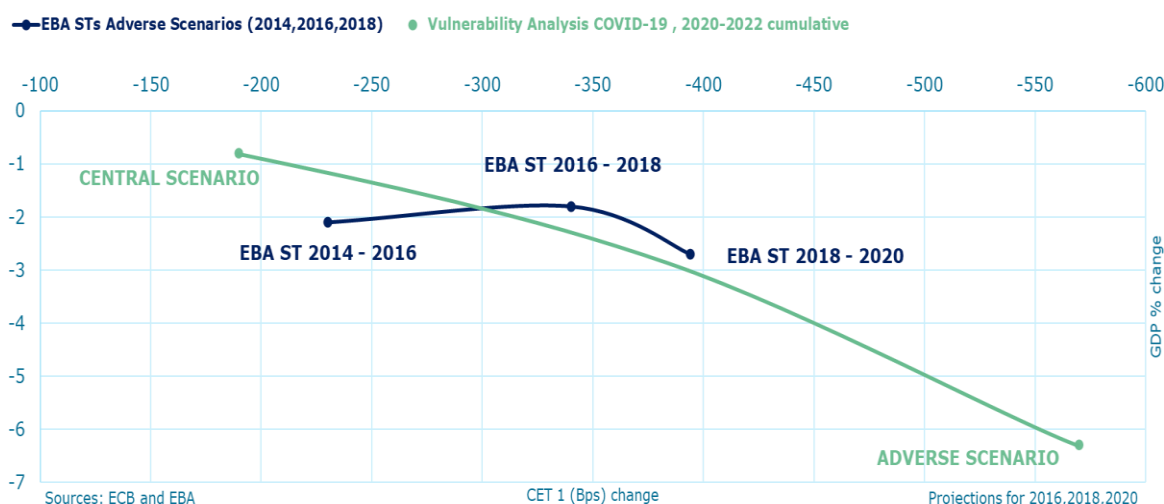
The key features of the EBA's stress test exercises, has been the standardised methodology and the stress scenario defined by the European Systemic Risk Board (ESRB). The standardised methodology is a set of rules used by the EBA and supervisors to define how banks should calculate the impact of the stress scenarios on their institution. So far, the methodology was highly standardised giving little room for banks to use their own models and assumptions. The standardisation which was accomplished by setting out common assumptions to apply to all banks, for example, regarding the characteristics of banks' balance sheets, was meant as a way to ensure that individual banks' results were comparable and to prevent banks from being overly optimistic in estimating their own capital situation during a period of economic stress. The other important part of the exercise, the adverse stress scenario from the ESRB, is a hypothetical scenario which envisages a situation in which the banking situation might come under significant stress.

The scenario, which is conceptualised to cover a period of three years, is based on the most relevant financial stability risks to which, according to the ESRB, banks were exposed at the time of its development. For example, for the initial 2020 exercise (in the end, postponed) the ESRB developed a "lower for longer scenario", ["confidence shocks drive expectations of nominal growth significantly below what is currently forecast which leads to a self-fulfilling economic recession in the EU and, commensurately, an ultra low interest rate environment."](#) While realistic, for example, the scenarios' reflection of potential trade tensions and the current low interest rate environment, the scenario itself remains hypothetical and is not designed to be [a "forecast of the most likely negative shocks to the financial system"](#).

Turning to the current situation of the EU's banking system, it becomes clear that the EBA's 2020 stress test has been replaced by a real-life stress test. Because of the postponement of the 2020 stress test, the [ECB conducted a COVID-19 vulnerability analysis](#). The analysis, of which the results are shown in the graph below, was launched in order to assess banks' resilience to the economic shock caused by the coronavirus. The vulnerability analysis was conducted with Eurozone banks and based on the original EBA methodology for the 2020 stress test, therefore some of the assumptions, such as the covered risk areas or the static balance sheet assumption remain the same. Comparing the outcome of the vulnerability analysis with the last three stress tests, it may be seen that the potential economic shock resulting from the COVID-19 crisis is more severe than the shock assumed in the previous exercises.

For example, as described by the ECB, the COVID-19 scenarios assume a deeper recession than the GFC, even though the downturn is not as prolonged. In the central scenario, the ECB assumes that the current level of capital, which is at 14.5%, depletes by about 1.9 percentage points. The cumulative GDP depletion over the three years (accounting for the rebound after a sharp recession) shows a 0.8% GDP depletion. This is the most likely scenario to materialise according to estimations from the Eurosystem, and currently, the banking system is sufficiently capitalised to withstand this scenario, while "continuing to fulfil its functions, in particular to meet the demand for lending to the economy". However, it only takes the adverse scenario, which is ["a more adverse, but still plausible development of the crisis"](#), before a number of banks need to

take management actions to mitigate the impact of the crisis, which are not yet considered in the analysis. At the same time, this scenario involves a capital depletion of 5.7%, which is much severer than anything that has been stress tested before, as can be seen from the graph.

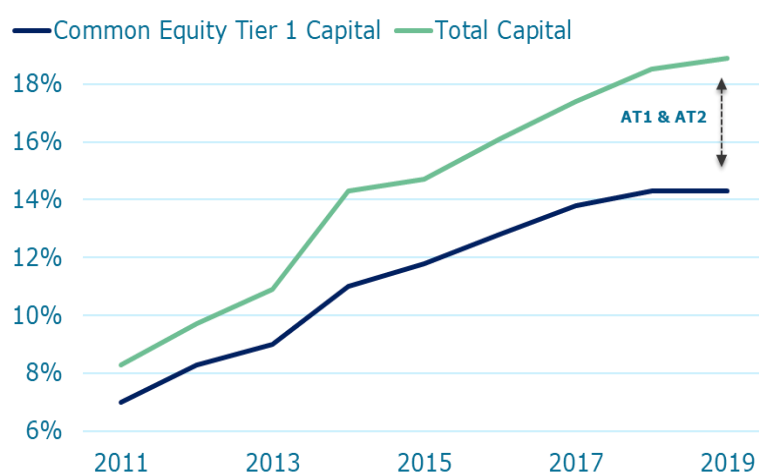


Based on those results, one can draw the following conclusions: (1) the EBA stress tests have been an important tool in analysing the resilience of the EU banking sector; (2) an analysis of the current situation reveals that banks are currently sufficiently capitalised to withstand a shock from the COVID-19 crisis, before further management actions and public support measures need to be considered should the situation deteriorate further; and, (3) further deterioration in comparison to the ECB’s central scenario could further test the resilience of the banking sector according to the ECB’s vulnerability analysis. In this case, a discussion on the “usability of buffers” may be useful in order to provide banks with more “breathing room” before automatic restrictions on – for example dividend payments – are triggered.



## Cost of funding

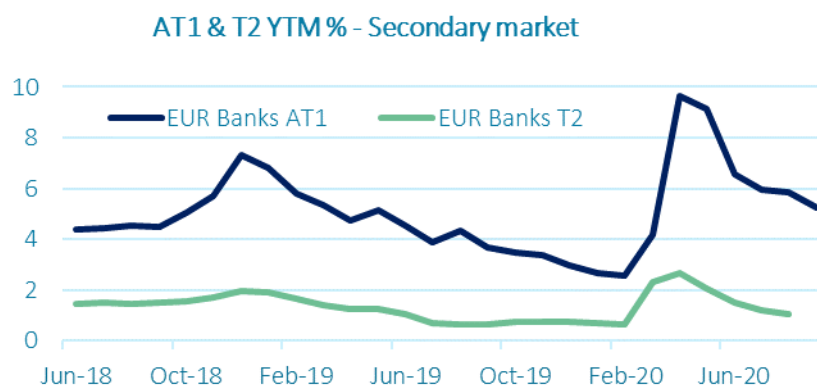
European banks have more than doubled their total capital ratio in the last decade. An important part of the increase has been contributed by the issuance of eligible loss-absorbing own funds instruments such as Additional Tier 1 (AT1) and Tier 2 (T2). This reinforcement of the European banks' capital base has put the sector in a condition to withstand a major economic shock like the Covid-19.



Sources: EBF and EBA

The trend of market prices of contingent debt instruments gives an indication of how the decisive monetary policy reaction has quelled the markets of bank debt. The spreads of AT1 rocketed up in the sessions following the outbreak in about 1,700 bps from per-COVID-19 levels, with a yield to maturity close to 10% reflecting strong fear sentiment in the market. Tier 2 instruments followed the same increasing trend, offering a yield close to 2.7%.

However, the abundant market liquidity ensured by the ECB asset purchase program and other monetary policy instruments helped reduced volatility and overall bond spreads, calming down the high risk perceived by investors.



**1) Increased loss absorbency** with a 4% cushion of AT1 and T2 built in the last 5 years

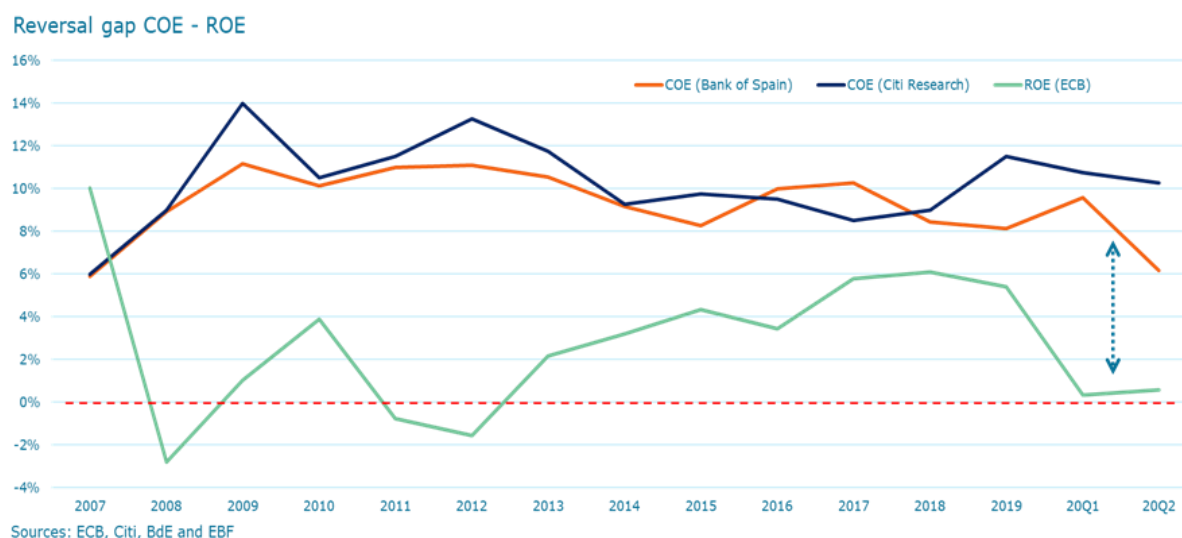


**2) Extenuating circumstances** shook convertible bonds market



**3) Ample market liquidity** attenuated volatility shock

European banks managed to improve substantially their ROE, touching 5.6% at the end of 2019 but still lagging far behind from their international peers. The shock of the pandemic in Q1 2020 dragged down banks ROE to 0.33% with a slight increase to 0.6% in Q2 2020. Meanwhile, the COE is also being reduced in part benefitting for the ample market liquidity. The gap between ROE and COE was narrowing down from 2017, however it has widened again in 2020. The following graphic shows COE estimates during the last decade using different models by Citi Research (blue line) and in a recent study published by the Bank of Spain (orange line).



Against a background of increasing competition of non-regulated entities operating in the financial system, narrow margins resulting from longstanding low interest rates and general economic deterioration, the closing of the reversal trend between COE and ROE remains an outstanding issue for the European banking system a pending subject for the future.

*Longstanding reversal with cost and return of equity*

# Chapter 5

## Country-by-country overview

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Country pages presented in the country-by-country overview have been produced by each member and Associate member of the European Banking Federation. Figures may not match those presented in the statistical annex due to the sources used by national banking associations i.e. European Central Bank and National Central Bank.

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### Austria

Austria's economy reached its cyclical peak in 2017 with a real GDP growth of 2.7%. In 2018, growth weakened to 2.3%, and to 1.5% in 2019. In both 2018 and 2019, Austria recorded growth that was 0.3 percentage points higher than in the euro zone.

The Austrian banking sector increased in size in 2019, while the number of banks continued to decline. The consolidated total assets of the Austrian banking sector jumped over the €1,000 billion mark in 2019 for the first time since 2016. At the same time, the number of banks dropped to 573. This corresponds to a reduction of 24 head offices over the last twelve months. The number of bank branches in Austria declined to 3,521, down by 3% compared to the previous year.

The number of payment transactions involving Austrian card holders dropped to 180 million in Q1 2020, after 196 million in Q4 2019. However, contactless payments saw an increase, the transaction limit having been raised to €50.

In 2019, 7.5% of the disposable income of private households went into savings. At the end of 2019, private households had accumulated financial assets amounting to €716.3 billion (180.0% of GDP). Private households are thus important providers of capital for the other sectors of the economy.

In Q4 2019, the Austrian household sector was indebted to 50.2% of GDP. This figure is well below the euro area average of 65.4%. Corporate debt in Austria was at 396% of gross operating surplus or 90.4% of GDP, also below the euro area average of 512.3% and 107.6% respectively. Lending to non-financial companies has been accelerating in Austria since mid-2017. In 2019, corporate loans increased by 6.2% year-on-year and loans to private households by 4.2%. Lending to property-related sectors and mortgage loans were the main drivers.

Austrian banks benefited from favourable economic conditions in 2019. The developments prevailing in Austrian banks until the end of 2019 largely reflect the cyclically induced positive developments of recent years. During this period, the profitability of Austrian banks recovered strongly, driven in particular by credit risk costs, which fell to historical levels, and also by the recent dynamic growth in credit. Capital resources have doubled over the past ten years and the liquidity position of the banks has also improved.

The profitability of credit institutions in Austria was supported in 2019 by the favourable economic environment, the accelerating credit growth and the historically low cost of borrowing due to low interest rates. As a result, domestic banks achieved a consolidated profit for the period (after tax) of €6.7 billion. The subsidiaries of Austrian banks in CESEE continue to benefit from the comparatively good economic conditions in the region. Credit growth (loans after provisioning) amounted to 10.2% in 2019. This development was mainly driven by the subsidiaries in the Czech Republic, Russia, Slovakia and Hungary.

Aggregated profit for the period (after tax) increased comparatively strongly year-on-year at the Austrian subsidiary banks in the Czech Republic (17%), Russia (12%) and Slovakia (7%).

The systemic risks arising from private residential real estate financing remain limited in Austria. To ensure that this remains so, sustainable lending standards are essential. The Central Bank of Austria (OeNB) continues to closely monitor developments on the real estate market and banks' compliance with the sustainable lending standards communicated by the Financial Market Stability Board (FMSG). Credit quality continued to improve in 2019: the ratio of non-performing loans (NPLs) at the consolidated level was 2.2%; in the Austrian business segment it was 1.7% and at the Austrian subsidiaries in CESEE it was 2.4%.

The CET1 ratio of Austrian banks amounted to 15.6% in 2019. Rising credit growth and increasing dividend distributions make it difficult for the banks to increase their capital further.

# Belgium

According to the European Commission, after an increase of 1.4% in 2019, Belgian GDP is expected to contract by 8.8% in 2020 before recovering at an annual growth rate of 6.5% in 2021. Compared to 2018 (+1.5%), GDP growth eased somewhat in 2019 in the wake of the economic slowdown in the euro area as a whole, for which the very open Belgian economy was all but immune. However, several positive developments should be noted: the policy to improve competitiveness, *inter alia*, by reducing labour costs (including a major tax shift operation), supports exports and employment growth (employment grew by 0.8% in 2019, and the unemployment rate fell from 6.0% in 2018 to 5.4% in 2019). Investments are in a relatively strong phase, in particular, equipment investments by companies. A plan has been elaborated at the political level with the aim of pooling investments worth several tens of billions of euros in the fields of energy, mobility, security, digitisation and health. Elections were held in May 2019 and regional governments have been installed. Conversely, it takes much more time to agree on a new federal government.

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 cumulated balance sheet on a non-consolidated basis of 66% of the sector total at the end of 2019) 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.

A number of institutions have specialised in international niche activities, such as Euroclear (one of the world's biggest players in clearing and settlement services) or The Bank of New York Mellon (custody). Like the Belgian economy, the banking sector is characterised by a high degree of international openness. Of the 85 banks established in Belgium end of December 2019, 83.5% are branches or subsidiaries of foreign institutions, and only 16.5% has a Belgian majority shareholdership. At the end of 2019, 13 credit institutions under Belgian law had 80 entities in 24 other countries.

At the end of 2019, the number of bank branches in Belgium amounted to 2,739. When adding the number of branches held by independent bank agents, this number reaches 4,692. The number of ATMs amounted to 11,659, including 7,460 cash dispensers. E-banking and mobile banking are on a strong rise: 13.8 million subscriptions for internet banking and 8.1 million subscriptions for mobile banking. This is why several banks are restructuring their retail distribution network and will continue to do so.

End of 2019, the Belgian banks' total assets (on a consolidated basis) amounted to €1,048 billion. Loans to households account for almost one-quarter of the total balance sheet, followed by Interbank claims and investment in debt securities issued by financial and non-financial companies and public sector entities (18%). Corporate lending to non-financial companies, takes up about 14% of the total assets. 69% of the liabilities of the Belgian banking sector are client deposits (including debt evidenced by securities), mainly consisting of regulated savings deposits, sight deposits and term deposits.

The Belgian banking sector is essential for financing the economy and companies. 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. After, they also tightened their criteria in the first and fourth quarter of 2019. In 2019, credit demand of companies only increased in the second quarter of 2019. The volume of outstanding loans to non-financial companies rose to a record level. Long-term loans, in particular, were 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, three-quarters of the loan volume taken out by companies is granted to SMEs (including micro-companies).

Companies also use asset-based financial instruments, such as leasing, from independent leasing companies or the many banks that have leasing subsidiaries or provide lease financing themselves. Corporate financing in Belgium has become more diversified. The larger companies also rely directly on the financial markets (e.g. bond issues), with accompanying services provided by the banks.

A similar diversification of services occurs in the savings and investment segments. Belgian households had gross financial assets of €1,409 billion at the end of 2019 (i.e. 298% compared with Belgium's GDP). In addition to their large offer of deposit products (Belgian households, non-banking companies and public authorities together had around €560 billion in deposit accounts with Belgian banks at the end of 2019), 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.

In the years following the 2008 banking crisis, the Belgian banking sector 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 59.5% in 2019, indicating a significant improvement in cost efficiency. The return on average equity (ROE) was 8.7% in 2019. The Liquidity Coverage Ratio and CET I ratio also remained very robust in 2019, at 140.5% and 15.5% respectively. Finally, the credit quality is solid, with an impaired claims percentage of 2.2% at the end of 2019.

Banks in Belgium employ almost 50,000 wage-earning people (of which almost 51% are women), with 115,300 in the wider financial sector in 2019. Since 2019, 90% of the Belgian financial sector signed the Women in Finance Charter to make progress on gender equality. The sector invests permanently 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 competencies.

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) is also a challenge coming to the forefront.

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# Bulgaria

Driven by private consumption, government consumption, business investments and despite the negative contribution of the net export, Bulgarian GDP recorded in 2019 a faster real growth of 3.7% (3.1% in 2018).

In 2019, the unemployment rate declined to the historically low level of 4.2%. The average annual change of HICP in Bulgaria remained broadly unchanged at 2.5% in 2019 (2.6% in 2018).

The favourable state of the Bulgarian economy, characterized 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. The expected positive developments regarding the establishment of close cooperation between the Bulgarian National Bank (BNB – the Central bank of Bulgaria) and the ECB and the participation of the Bulgarian lev in ERM II also played a key role.

At the end of 2019, there were 25 banks operating in Bulgaria, six of which were foreign bank branches. The top five banks held approximately 62.1% of all assets. At the end of 2019 the market share of domestic banks was 21.7% 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 2018 the amount of card payments initiated through virtual POS terminals increased more than twofold. In 2018, 31.1% of the credit transfers were initiated electronically, which represents two thirds of the total value of all credit transfers. According to preliminary data from the BNB for 2019 and 2020, that trend has been maintained. The number of people using Internet for banking grew to 8.6% in 2019 from 7.4% the previous year, according to the National Statistical Institute data.

In 2019 the total assets of the banks increased by 8.2% year-on-year to €58.4 billion (BGN 114.2 billion). The share of loans and advances increased to 65.7% compared to 63.3% at the end of 2018. The share of cash dropped to 15.9% from 19.3% and the share of securities increased to 13% from 12.3%.

The loan portfolio of the banking system grew at a moderate pace due to the continuing favourable economic conditions, low interest rates and competition. According to the BNB interest rate statistics, the average interest rates on new deposits remained low and the 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 by 7.4% to €29.92 billion (BGN 58.52 billion) from €27.87 billion (BGN 54.51 billion), according to the BNB monetary statistics. In the last year the outstanding loans to non-financial corporations, including SMEs, which represent 99.9% of all enterprises in the country, increased by 5.9%, reaching €17.7 billion (BGN 34.62 billion). By sectors, the highest amount of loans and deposits were in the trade, manufacturing and construction industries.

Deposits held by banks grew by 9.7% in 2019 and reached €43.54 billion (BGN 85.16 billion), or 71.8% of GDP, despite the low interest rate levels. Approximately two thirds of the deposits were held by the household sector (65.3%).

The banks have used the favourable momentum to continue cleaning their loan portfolios intensively as evidenced by the decline in the share and the amount of NPLs. As of the end of 2019, the amount of NPLs (excluding central banks and credit institutions) dropped to €2.01 billion (BGN 3.94 billion) in absolute terms, or to 5.94%. Although the level of NPLs is 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 2019 as the adjusted net profit of the system grew by 11.6% to €819 million (BGN 1.6 billion). The net interest income increased by 0.1% to €1.4 billion (BGN 2.75 billion) despite the increase in lending. The net income from fees and commissions increased by 3.8% to €566 million (BGN 1.11 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 2019, CET 1 for the whole banking system was 19.04% and the total capital adequacy was 20.16%. The LCR stood at 269.9%. In 2019, on adjusted basis, ROA increased to 1.47% from 1.36% and ROE rose to 11.6% from 10.4% a year ago.

In 2019, the banks paid €84.5 million (BGN 165.3 million) as a corporate tax, which represented 6.1% of all corporate tax revenue in 2019.

As of the end of 2019, 67,300 people were employed in the financial sector, and approximately half of them were in the banking sector.

# Croatia

Croatian economic growth in 2019, has slightly speeded up to 2.9% based on stable domestic demand. Growth in personal consumption by 3.5% was supported by increase of available income as well as positive movements in the labour market. Investments grew by 7.1% while government consumption has strengthened to 3.3% year-on-year. Exports of goods and services continued positive movements but still stronger growth in imports of goods and services highlights the continued high import dependence. However, economic growth remains moderate in relation to other new EU members, but on solid foundations due to the significantly decreased external vulnerabilities and improved fiscal metrics. Thanks to improved debt ratios, Croatia satisfied the convergence criteria and filled an application for the entrance into the ERM II as a step towards joining the EMU and adoption of the euro.

Croatia ended 2019 with a budgetary surplus at 0.4% of GDP. That is the third surplus in a row driven by an improvement on the revenues side. Positive impact also came from decreased interest expenses. Favourable market conditions with low interest rates were used for the debt refinancing at a lower cost. Nominal GDP growth combined with continuation of fiscal consolidation and interest bill cuts, have reduced public debt to 73.2% of GDP. Consequently, the yields on government debt have fallen to the lowest level in the history of the Croatian state. Standard & Poor's as well as Fitch have left Croatia in the lowest investment grade (BBB-) but with a changed outlook from stable to positive.

Moderate inflation, ample, and even rising, liquidity, low interest rates and a stable foreign exchange rate (HRK/EUR) have remained the main features of the financial markets. Monetary policy has an accommodative stance as long as inflation remains modest, and the FX rate is stable. From a risk perspective, monetary easing is allowed by banks' strong external positions, steady FX rate outlook and reduced fiscal risk.

Rising surplus of liquidity in the financial system has focused the competition between banks on placement of loans to customers. But the credit demand remains subdued in the corporate segment. The restructuring process in the largest retailer company (former Agrokor, transformed into Fortenova) ended in April 2019 and former creditors took over the management of the company. But the conclusion of takeover deal was preceded by a settlement of the over-indebted company with creditors, where the debts were to a large part written off or converted into capital. In addition, at the beginning of 2019, creditors collected debt from the insolvent shipyard (Uljanik) through the protest of state guarantees placed to the shipyard as collateral, thus further reducing the volume of loans. Hence, in year 2019 the loan volume with corporate segment had been reduced by 3.6%. Without one-off negative impacts, the demand for working capital lending had decreased as a result of excess liquidity in the system, which motivates the short-term financing between companies and thus reduces the demand for loans from banks.

Loans to households increased by 6.9% in 2019 due to the continued double-digit growth of cash loans. In February 2019 the regulator sent a recommendation to banks to harmonize the criteria for assessing creditworthiness between long-term cash loans and housing loans. Implementation of recommended criteria in the processing of credit applications with consumers has slowed down the growth of cash loans in the second half and the year ended with an increase of 11.5%. At the same time, the demand for housing loans has been increasing.

Interest rates offered by banks on time deposits have fallen almost 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 below a half of total customer deposits. Interest rates offered on time deposits are under the pressure of monetary easing measures. Change in the direction of monetary policy in Croatia is not forecasted in the mid-term horizon as the country awaits adoption of the euro in the ERM II. After joining the EMU the downward pressures on interest rates are more likely to strengthen than to weaken. Hence, the maturity gap in banking assets and liabilities will deepen further.

The banking sector has realized a 9.9% return on equity in 2019. Gross incomes were up by 11% on a yearly basis and operational expenses and risk costs raised by lower rates. Rise in the profit after tax was 17%. The NPL ratio fell to 5.5% as a result of improved collection and debt sales. Portfolio quality has had a positive contribution to the banking sector profitability in the mid-term period before 2020. On the positive side, the credit registry has renewed the consumer debt reports in 2019, after a year and half long period without activity when the system has been adjusted with to the GDPR. The approval process in consumer lending has been improved with information of total client indebtedness. Now, in the period of worsening in market conditions and clients' creditworthiness, the banks are well prepared for the management of loan portfolio quality and for the prevention of NPL ratios and risk costs' increase.

Thirteen small banks and three housing saving banks are still active on the market, but with low probability for sustainable business. Improvement in incomes is limited in the low interest rates environment and rising technology dependence in providing of services where the economy of scale is a decisive factor. On the other hand, the cost efficiency is limited by the rising complexity of regulation. Forecasted rise in risk costs during the already started recession could be a trigger for small banks to find a way out through enlargement. So the motivation for mergers and acquisitions will not be missing.

# Cyprus

Almost seven years after the peak of the previous sovereign debt and financial crisis in Cyprus, the country is now navigating new challenges that drive the public and the banking sector into uncharted waters.

Even though the country's economic performance was one of the best in Europe in 2019 with real GDP growth reaching 3.2% and unemployment steadily declining to be at 7.1%, below the euro area average, the major threat of recession is looming ahead for Cyprus as well as the rest of the world.

Over the last seven years the banking sector has demonstrated great ability in adapting to various new regulatory and legislative requirements. The banking sector's achievements were recognized by international institutions, independent observers of Cyprus' economy and private organizations like correspondent banks in the EU and USA. During this period, banks have contributed towards Cyprus's successful performance after the conclusion of the economic adjustment programme, having managed to restore, gradually, credibility, restructure operations and procedures, and overcome challenges to finance new viable projects and investment opportunities. Lessons learned during the last seven years have prepared the banking sector well to respond to the new crisis and extraordinary circumstances created subsequently, primarily in the domain of public health and, second, for the economy.

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 30 authorised credit institutions in Cyprus, consisting of seven local authorised credit institutions, three subsidiaries of foreign banks from EU Member States, one subsidiary of a foreign bank from a non-EU country, five branches of banks from EU Member States, 13 branches of banks from non-EU Member States and one representative office.

Within the framework of the European Banking Union, the Bank of Cyprus, Hellenic Bank and RCB Bank, have been, since November 2014, 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 adhere to the SEPA direct debits' 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 the necessary increased payment safety.

During the last three years (2018-2020), consolidations took place in the banking sector as there were acquisitions of institutions as well as a reduction in branches. As of the end of 2019, there were 326 branches in Cyprus (compared to 458 in 2016) and banks had a total of 8,548 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 2019, aggregate bank deposits remained fairly steady at €48.7 billion, as confidence gradually returned. Bank deleveraging is continuing, and total outstanding loans were reduced by €5.6 billion throughout 2019 (a 14.3% decrease from the end of 2018) as banks maintained their efforts to reduce non-performing loans (NPLs). Nevertheless, during the year a total of €3.2 billion of new lending was given to firms and households.

The banking sector is making progress in addressing the high level of NPLs. Within 2019, the total amount of NPLs was reduced by 12.5%. The NPL ratio at the end of 2019 was 27.9% (2018: 30.3%).

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

# Czech Republic

The Czech economy slowed during 2019 but despite that, its GDP growth pace of 2.4% could still be seen as satisfactory. For most of the year, the external uncertainties (Brexit, the US-China trade conflict, or the anaemic performance of the major trading partner's economy), were reflected in the little willingness of entrepreneurs to invest. Household consumption thus became the key driver of growth (as a result of increases in wages and pensions and of the persisting low unemployment rate at 2.1%), followed by government consumption.

Household consumption contributed 1.2 percentage points to GDP growth and general government consumption by 0.6 percentage points, while the contribution of gross fixed capital was only 0.4 percentage points (approximately one third compared to 2018). The contribution of the balance of trade in goods and services to growth remained in principle at "black zero" (0.1 percentage points), however, net exports were significantly negative (-0.9 percentage points year-on-year) in the last quarter due to a strong growth of demand-driven imports in parallel with a decline in exports, which was related to developments in the countries of our main trading partners.

The gradually decreasing rate of economic growth was also reflected in the development of public finances, which after three years of moderate surplus, fell into a balanced mode, while the state budget closed the fiscal year with a modest deficit of 0.3% GDP, which, nevertheless, was offset by the economic performance of cities and municipalities, similarly as in the past. As a result of the balanced financial management of the state, public debt decreased to 30.9% GDP.

In the labour market, however, a shortage of labour force continued to widen during 2019 and inflationary pressures intensified. Contrary to the several previous years, a gradual increase in inflation not only above the central bank's target, but also slightly above the upper boundary of the tolerance band was a new feature of economic development during 2019. The average annual inflation rate rose to 2.8%, while the inflation rate rose to 3.2% year-on-year in December, with a trend towards further growth. Czech koruna floated between 25.4–25.9 CZK / EUR. Thus, for most of the year, monetary policy could not rely on the assumption of a steadily strengthening exchange rate in the converging economy. However, due to increasing external risks, the monetary policy rate (two-week repo) increased only once in 2019, in early May from 1.75% to 2%.

By the end of 2019, there were 49 licensed banks operating in the Czech Republic, the same as a year ago, consisting of four large banks, five medium-sized banks, 10 small banks, 25 branches of foreign banks and five building societies. A total of 39 entities are under the control of foreign owners, of which 14 are banks and 25 are branches. Domestic owners control 10 banks of which two are banks with state participation. In addition, 457 foreign banks operating in the EU single internal market could provide cross-border services in the Czech Republic.

By the end of 2019, the total value of the banking sector's assets rose by approximately 4%, to almost CZK 7,622 billion and the volume of assets relative to GDP was approximately 135%.

Compared to the previous year, net profit for 2019 grew by 11%, to almost CZK 91 billion. Corporate income tax paid by banks reached CZK 18,1 billion, i.e. almost 10% of total receipts of state from this tax (at the same time, banking had a share on Gross Value Added around 3%). In accordance with comparable EBA

data, the return on equity stood at 16% (i.e. approximately 1.5 percentage points. more than a year ago) and the return on assets reached 1.3%.

At the end of 2019, the total volume of bank loans in the Czech Republic increased by 4.4% year-on-year (when its growth rate was almost double), reaching CZK 3,450.3 billion. Banks provided loans to households totalling CZK 1,649.8 billion, which was almost 6.4% more than in the previous year, corporate loans reached CZK 1,120 billion, up by 3.7 %.

However, as regards new businesses, the picture of 2019 looks different. During the year, households drew new housing loans from banks and building societies to the amount of CZK 306.1 billion, i.e. 14.4% less than in 2018. Two factors were reflected in this development – the decrease in the availability of apartments on the supply side, accompanied by growth in property prices, on the one hand, and on the other hand, on the demand side, constraints imposed since the end of 2018 by an effective tightening of the regulation (DTI must not exceed nine times net annual income and DSTI max. 45%). However, if we adjust the figure mentioned above for refinanced mortgages and those with a new interest rate fixation, then the volume of newly granted mortgages fell by 13.6% compared to 2018.

The resulting year-on-year decline in the volume of mortgage loans to households was mitigated by the relatively fast 8.8% year-on-year increase in bank loans for consumption, which was a surprise compared to a slight decline in 2018; on the other hand, however, it could indicate use of their part to complement the missing funds of households to finance the acquisition of their own housing, or to improve it.

In the area of corporate financing, after two lean years, when loans grew only slightly, there was a relatively strong growth of 12.8% year-on-year, reaching CZK 520.7 billion at the end of 2019, exceeding the volume of new loans to households after a long time. Nevertheless, the total balance of outstanding loans to households still exceeds the outstanding receivables from the corporate sector by approximately 47% and thus remains consistent with the long-term trend.

The volume of customers' deposits totalled CZK 4,739.3 billion by the end of 2019 and exceeded the volume of consumer credits by 37%. Traditionally, the excess of deposits over loans is generated by the household sector, where there is 65% more deposits than loans. In the corporate sector, the volume of deposits and loans is approximately equal.

At the end of 2019, households had CZK 2,725.5 billion deposited with banks, i.e. by 6.5% more than last year. More than 88% of the savings were deposited on demand. Nevertheless, the annual growth rate of fixed term deposits in 2019 (4.6%) more than doubled in comparison with the previous year. This increase can be attributed to the gradual increase in the deposit rates on fixed term deposits, especially at the end of the year.

# Denmark

The Danish economy continued in 2019 its steady real GDP growth of about 2%. The number of employees in the financial sector is still decreasing, reaching 35,669 employed in 2019 compared to 40,907 in 2000. In 2019, there were 63 banks and seven mortgage banks in Denmark. Persistent consolidation has implied a large decline since 2000 when there were 185 banks and 10 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, revenue in the banks continued to decline in 2019 from a record high in 2017. An analysis of the 19 largest banks and mortgage banks shows a small increase from €4.2 billion to €4.6 billion. And the return on equity now amounts to 8.6 % compared to 12% in 2017. The decrease in 2019 reflects the turbulence on the stock market and continued low net interest income.

Overall, the Danish banking sector is robust, and banks have increased their capitalization since the beginning of the financial crisis. The Danish banking sector had an overall capital ratio of 24.8% in 2019, 10 percentage points higher than in 2008. In addition, the core capital ratio was 22.3% in 2019. Both figures have increased gradually over the last five years. The Danish banking sector has also proved to be well-capitalized and resilient in the stress tests conducted by the EBA.

The Danish financial sector is one of the most digitalized in world, and the digitalization is still evolving with new initiatives such as a new mobile app for the online log-in solution, NemID. This is amongst the ongoing initiatives and works aimed at fighting the increase in online crime targeting the banks and their 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.

At the beginning of 2019, Finance Denmark launched a Forum for Sustainable Finance consisting of leading persons from companies, think tanks and experts involved climate and sustainability. The forum will help support the EU's transition towards a more sustainable economy. In November, the same year, 20 recommendations were presented to the financial sector, which Finance Denmark and its members now try to implement.

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. Almost 18,000 pupils - or more than one in ten Danish pupils of the targeted age - participated in the Danish Money Week 2019. 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 14 banks of which nine are licensed credit institutions in Estonia and five are operating as branches of foreign credit institutions. Banking sector assets constitute €30 billion equivalent to 110% of Estonian GDP. The Estonian banking sector is dominated by foreign capital holding 85% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, LHV Bank and Luminor Bank. Banks are serving two million private and 0.3 million corporate customers through 77 bank branches. Estonian customers are operating 1.8 active current accounts per inhabitant and 1.25 active internet bank accounts per inhabitant.

Unfortunately, the topic of money-laundering has been mentioned in connection to Estonian banking sector during recent years. The suspicions mainly concern transactions of late 2000's and early 2010's and are to do with serving mostly non-resident high-risk customers allegedly without proper due diligence measures.

Though no court proceedings have been held, one small foreign-owned bank, Versobank, had its licence withdrawn by ECB in 2018 and Estonian FSA ordered to shut down the operations of Danske Bank's Estonia branch before the end of 2019. Both banks specialized mainly on corporate finance in Estonia and had a market shares of 1% (Versobank) and 6% (Danske Bank Estonia branch).

The share of deposits of non-resident customers has been decreasing remarkably in recent years. At the beginning of 2013, the share of non-resident deposits in Estonian banks constituted almost 20%, currently non-residents hold 9% of deposits in banks operating in Estonia. The share of deposits originated by non-resident customers registered in offshore territories has decreased 10 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 also enforcing agreed financial sanctions. Estonian Banking Association has submitted its proposals for using legislation to shore up anti-money laundering efforts.

Estonian banks have issued 1.46 bank cards per inhabitant, 80% of issued cards are debit cards, and 20% credit cards. 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 almost €20 billion worth of deposits and operate loan portfolios of the same value. The banking sector is mainly funded through the deposits of resident clients, though financing from equity market and parent companies plays an important role in the funding of some banks.

Bank deposits continue to grow faster than debt liabilities - the bank deposits of households were 12% larger at the end of 2019 than they were at the end of 2018. The annual growth of loan portfolio was less than 4%. 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 2019. The average rate for long-term corporate loans issued in December was 2.6%. Average interest rate for new housing loans was 2.4% by the end of the year.

Quality of the loan portfolio remained good. Value of loans overdue by more than 60 days has remained at 0,5% of the loan portfolio since 3Q 2018.

Housing loans account for about 40% of the loans to the non-financial sector and 80% of the loans granted to households, 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 the average for the EU. Credit growth in housing loans continues to be supported by very low base interest rates and growing prices on the housing market.

The profitability of the Estonian banking sector has been among the strongest in the EU countries. The Estonian banking sector is relatively cost-efficient, which may partly be 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 2019 was €285 million representing 20% decline compared to the 2018.

# Finland

Finland's GDP grew by 1.1% in 2019, which is slightly slower than in 2018. Growing uncertainty in the global economy and the weakening economic outlook in the euro area were reflected in the Finnish economy. The manufacturing industry's economic conditions weakened and the growth of investments slowed down. Private consumption also grew only moderately.

The value of Finnish exports totalled €96 billion, which was a growth of 7.2% from the previous year. The volume of exports grew by 7.5%. Total exports increased as a consequence of strong growth in service exports and ship orders supplied abroad. Finland's current account nevertheless showed a deficit weakened by more than a billion euros. The value of investments grew by 1.8% to €57 billion, but their volume sank by 0.8%. Private consumption accelerated by 2% to a total of €126 billion. Employment numbers grew by 17,000, which is a 0.9% increase. The national employment rate was 72.6% at year-end.

In 2019, the general government deficit increased to €2.7 billion. General government EDP debt, or consolidated gross debt, was 59.4% relative to gross domestic product at the end of 2019. This is just under the 60% debt-to-GDP limit set in the EU Treaty on the Functioning of the European Union. Government tax revenue grew by 2.5%, as did total revenue by 4.1%. The total tax ratio, i.e. the ratio of tax or tax-like payments to the GDP, fell to 42.1%, down by 0.3% from 2018.

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, who together hold 80% 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 149 independent member cooperative banks and the OP Cooperative, which they own. The second largest is Nordea Bank with a 25.4% market share. Danske Bank and Municipality Finance are nearly equal in terms of their market shares, 10.0% and 9.5%, respectively. Danske Bank turned its Finnish subsidiary into a branch at the end of 2017.

Finnish households' loan debts totalled €157 billion at the end of 2019, which is €5 billion more than in 2018. Housing loans comprised the majority of this debt with €100 billion. Households were liable for approximately €18 billion in limited-liability housing company loans, and for €23 billion in consumer credits. In recent years, unsecured consumer credits (so-called payday loans) have grown at a fast rate.

Households' debt-to-income ratio rose and was 129% at the end of the year. In 2018, the Ministry of Finance appointed a working group to examine ways in which the excessive indebtedness of individuals and households could be better controlled and macroprudential risks thus reduced. The working group published its report in October 2019.

The report proposes a number of additional tools to the macroprudential stability toolkit currently in use in Finland. These include a debt-to-income (DTI) loan cap, maximum loan term of 25 years on mortgage

lending, and limitations to housing company loans in new housing construction. The latter also involve a loan cap, 25-year maximum maturity, and a rule that no interest-only periods could be used for the first five years. The report also includes proposals which are primarily related to customer protection, but which can indirectly be considered macroprudential policy tools. The government's draft legislation process has been delayed. The new legislation will probably be handed over to the Finnish Parliament in early 2021.

Lending to corporates (housing corporations included) increased by 6.5%, with growth broadly based across economic activity sectors. At the end of December 2019, the stock of loans to non-financial corporations stood at €90.1 billion (37.4% of GDP), of which loans to housing corporations accounted for €34.7 billion. The corporate loan stock grew by €5.5 billion during the year, which is the most it has been since 2011.

The aggregate operating profits of the Finnish banking sector totalled €3.4 billion in 2019. Non-recurring costs weakened banks' operating profits by roughly a third. Net interest income, the banking sector's most substantial source of income, improved with the volume growth of lending and the low cost of funding. Other sources of income, i.e. commissions and net income from trade and investments, also improved from the previous year. The favourable development of net interest from trading and investment activities was largely the result of changes in market values.

The banking sector's weaker operating profits in 2019 are largely due to the one-off writedowns entered by Nordea in Q3 2019. The sector's operating profits were especially burdened by an IT-system related write-down, restructuring-cost reserves, and loan impairments. Banks have made large investments into IT projects and digitalisation. The implementation phase of the new systems means the old systems need to be entered as one-off write-downs.

The capital adequacy of the Finnish banking sector remained strong. At the end of the year, its overall capital adequacy ratio was 21.3%. The Common Equity Tier 1 ratio (CET1) stood at 17.6%. The leverage ratio was 5.9%, which is slightly higher than the European average. The short-term liquidity remained strong in 2019, although the sector's Liquidity Coverage Ratio (LCR) fell 9 percentage points to 166%. The average LCR in the EU is 148%.

The Finnish banking sector's return on equity (ROE) was 4.9% at the end of 2019, slightly below the average ROE for all EU banking sectors (5.4%). In Finland, non-performing assets have not been a problem. At the end of 2019, they remained at the same low level as in 2018, comprising about 1.7% of the loan portfolio.

# France

The year 2019 was marked by political and economic uncertainties (protectionist tensions, Brexit) that weighed down not only on trade, but also on corporate investment and world growth more generally. In this context, the economic activity in France slowed down in 2019: GDP growth reached +1.5% after 1.8% in 2018. Exports slowed down more than imports, so that the contribution of foreign trade balance to GDP growth was negative. However, household consumption and investment accelerated. Household purchasing power gains were more dynamic than their consumption: their savings rate reached 15.0% in 2019 (after 14.5% in 2018).

The banking sector is one of France's six main economic assets, according to the OECD. As of January 2020, 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 accounted for 4.0% of total value added in France in 2019, of which approximately 60% for the banking industry. The banking industry employed 360,000 people at the end of 2019, representing 1.8% of the private workforce in France, and recruiting 44,000 people in 2019. Their network of bank branches providing access to banking services and cash is among the densest in Europe (one bank branch for 1,870 inhabitants in 2019 versus 2,655 in the eurozone).

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 capitalization of French banks. The aggregate common equity Tier 1 capital (CET1) of French banks was 14.4% at the end of 2019.

The six largest French banking groups, which operate according to the 'universal banking' diversified model, reported a strong financial performance in 2019. Total net banking income reached €150.6 billion (up 2.0% compared to 2018), of which retail banking accounted for 65%. Total group net income remained stable at €25.6 billion.

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 December 2019, outstanding loans to the economy stood at €2,545 billion, up 5.8% year-on-year.

Outstanding loans to businesses stood at €1,062 billion at the end of December 2019, up 5.1% year-on-year, while the euro area rose by 2.6% on average. Outstanding loans to investment were the most important segment, at €763 billion (up 6.3%).

Loans to SMEs accounted for 42% of total loans granted to businesses in December 2019 and rose by 5.3% year-on-year. Access to credit is high: 97% of SME investment loans and 89% of cash credit applications were accepted in the fourth quarter of 2019. Credit demand remains almost stable: only 22% of SMEs sought an investment loan and 6% requested cash credits.

French banks also actively finance French consumers. Outstanding household loans reached €1,302 billion at the end of December 2019, up 6.6% year-on-year. Most household loans were housing loans, representing €1,079 billion (up 6.8% year-on-year).

Lending activity remains both dynamic and sound. The level of non-performing loans is very low (2.5% at the end of December 2019) as the cost of risk (as a proportion of average total assets it declined from 0.41% in 2009 to 0.11% in 2019).

Diversification of corporate financing is developing in France. Markets account for 37% of corporate financing, compared with 30% in 2009. French banks also have a large and diversified 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. 3.4 billion contactless payments were made in 2019 (after 2.1 billion in 2018).

It is worth mentioning a French Initiative which is a world first, pursuant to which the large French banks have decided to exit the coal sector (with firm exit dates) and have published an indicator that will be updated annually to evidence such exit, as well as the related methodology in order to be as transparent as possible. As of 2019, their exposure to coal amounted to €2.3 billion, representing less than 0.2% of their corporate portfolio.

Such publication has been made on the website of the "Observatory of Sustainable Finance" that tracks all the French financial institutions progress on Sustainable Finance, following a public declaration on July 2<sup>nd</sup> 2019, involving all the French financial institutions, the French Government and the French financial regulators (AMF and ACPR) who will oversee the reality of the commitment made. Such multistakeholder approach is also unique in the banking world.

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# Germany

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-owned 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 380 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.

The cooperative sector consists of 842 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. But 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 consolidate further 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, especially, 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 has with €974 billion in 2019, increased compared to the previous year (+4.3%). 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.

With a negative interest rate and the massive buying-up programmes (especially PEPP), the ECB tries to lower rates across the entire yield curve in order to boost demand for investment and longer-term credit. However, as banks are largely unable to pass on negative rates to customers in the broad deposit business, negative ECB-rates worsen bank profitability. In the longer run, this weakens their lending capacity. In addition, the massive buying-up programmes are causing excess liquidity in the banking system to rise sharply.

# Greece

After many years of economic depression and three stability support programmes, Greece's economy has started to grow again since Q2 2017. In 2019 real GDP increased by 1.9%, sustaining the growth momentum of 2018 (+1.9), well above the euro area average of 1.3%. Real GDP growth was mainly driven by net exports, supported by quite a positive tourist season and a rebound of government consumption, ahead of the July 2019 government elections. On the other hand, private consumption and investment growth remained lower than expected. The unemployment rate, while still the highest in the EU, decreased to 17.3 in 2019 (2013: 27.5%), the lowest level for the last eight years. The Harmonised Index of Consumer Prices (HICP) increased by 0.5% in 2019, from 0.8% in 2018, while the current account balance improved to -1.4% of GDP from -2.8% a year before. Overall sentiment indicators underlined a positive momentum for the Greek economy in 2019. Capital controls, in force since June 2015, were totally lifted in September 2019 and Greece has been active on European and international capital markets. As a result, Greek government bond yields have declined significantly, which in turn also brought down corporate bond yields.

The number of domestic credit institutions incorporated in Greece is 15, out of which eight are commercial and seven cooperative banks. Of the eight commercial banks, only four are deemed "systemically significant credit institutions", according to the respective SSM definition. The share of the five largest credit institutions in total assets reaches almost 97.4% of the banking system. Currently, 21 foreign banks operate in Greece with local branches, out of which 18 branches of credit institutions are incorporated within other EU Member States and three branches of banks incorporated within third countries. In total, the number of banks' branches is 1,834 (2018: 1,981), while the number of employees is 36,727 (2018: 39,383) and ATMs 5,702 (2018: 5,594).

The resilience of Greek banking groups was enhanced during 2019 mainly due to improvement in their capital adequacy ratios. The return to profitability was positively affected, based mainly on the sale of subsidiaries of Greek banks. The Capital Adequacy Ratio on a consolidated basis rose to 17.4% in 2019 from 16% by the end of 2018 and the CET1 ratio increased to 16.4% from 15.3%. Liquidity conditions for Greek credit institutions have been constantly improving mainly due to (a) broadening deposit base, and (b) expanding funding sources, such as securitisations and covered bonds. At the same time, bank deposits continued to increase despite the significantly low deposit rates. In 2019, the overall weighted average interest rate on new and outstanding deposits remained almost unchanged. On the other hand, the overall weighted average interest rate on all new loans to households and non-financial corporations increased by 11 basis points, while the overall weighted average interest rate on outstanding amounts of all loans remained almost unchanged.

In order to improve asset quality, Greek banks have renewed their binding operational targets towards reducing their NPL stock, to the SSM. On the same issue, the initiative for establishing a Hellenic Asset Protection Scheme (HAPS) is considered a positive step towards improving banks' quality of assets. The scheme involves credit institutions transferring NPL exposures to a special purpose vehicle, which in turn is going to securitize these loans and sell notes to investors, with senior tranches being guaranteed by the Greek state.

# Hungary

The stability and performance of the Hungarian economy have improved significantly in recent years. In 2019 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 2019 was a bit over the target of the Hungarian Central Bank, at 3.4%.

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 2019 especially due to the relatively high GDP growth rate. The sector's total assets were 92.6% of the annual GDP of which 61% were held by the top five banks.

The Hungarian banking sector consists of 41 institutions. Among them are 21 commercial banks, eight foreign bank branches, five mortgage banks, four building societies, and three specialised banks. The year 2019 was that of the cooperative sector's final consolidation, including the related commercial banks. At end of April, three banks and a cooperative merged, while at end of October this new entity merged with another commercial bank and 11 saving cooperatives.

At the end of 2019, 58,6% of the banking sector was controlled by local entities with almost one-seventh of that in the hands of the State.

The National Bank of Hungary has implemented its domestic (denominated in HUF) instant payment solution and launched it on the 2 March 2020 with the obligatory participation of the GIRO Zrt. (domestic retail payment clearing house) and 34 domestic payment services providers. The new payment system is available to make payments between Hungarian payment accounts within seconds, on a 24/7/365 basis. The system is able to manage secondary account identifiers as well, like telephone numbers, e-mail addresses and tax numbers. From the 1<sup>st</sup> September 2020, it will also be possible for consumers and other market participants to initiate and send *Requests to Pay* transactions and for corporates to send batch transactions, as well.

The banking sector has 1,957 branches and employs around 40,000 people (0.88% of the total employment in Hungary). For the country's population of 9.8 million in 2019, there are 10.5 million bank accounts, 9.4 million payment cards (out of which 8 million are contactless), 5,095 ATMs and 150,000 POS physical terminals and 13.000 virtual ones.

Electronic payments increased dynamically in 2019, accounting for 1.4 billion payment transactions. The payment card accepting network's already 89% support contactless card acceptance. In 2019, from the 14 billion electronic payments, 1 billion were executed by payments cards. The number of payment accounts accessible by internet or mobile banking services achieved 8.4 million accounts (out of 10.5 payments accounts).

45% of the banking sector's total loan portfolio is provided to non-financial corporates, 30% to households and organisations closely linked to households, and 14% to the foreign sector (of which two thirds to foreign corporate sector). In 2019, retail lending grew at a rate unseen since the crisis, expanding by over 15% in annual terms, corporate lending lagged behind a bit with an increase of 8%.

The deposit value of the banking sector – excluding interbank transactions - remarkably increased in 2019, by 9.0% in total, corporate and household contributed positively, altogether by 8.2%.

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 subsidized price for the selling of the produced electricity for a fix period (mandatory takeover period). The banking sector needs a proven and clear technology, a stable and foreseeable regulatory environment and professional investors.

The feed-in-tariff system (KÁT) 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 advantageous for investors. In 2017 a new financial incentive scheme called Renewable Energy Support System (METÁR) was introduced which is a bit stricter, more competitive and provides a tender-based price subsidy to investors in the case of larger scale projects. Nowadays in Hungary the main trend is the predominance of solar projects. The transition from the 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) had been 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 years mandatory takeover period. The 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 in the banking market. From 2019, the METÁR can be allocated on tenders only. The first call for the METÁR tender was in September 2019. There was strong competition with bids more than 2,5 times the allocable capacity. About 95 MW new capacity won support on the tender, winners got prices 20-30% lower than the previous administratively set tariffs. The second call was in July 2020, deadline for the applications was 15 October 2020. The second call is almost twice as big as the first call. According to the Ministry for Innovation and Technology, calls will happen twice a year from 2021 and 300 – 500 GWh/year renewable electricity can be supported in each call.

The capital position of the Hungarian banking sector – including OTP group's foreign affiliates - is stable. The CET 1 capital adequacy ratio (CAR) is almost 15%, while the total CAR is almost 17%.

In 2019, profits of the Hungarian institutions dropped, as compared to 2018, but before tax return on equity remained over 16%. Contributor:

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# Iceland

The commercial banking sector consists of four universal banks and four small savings banks that operate in the rural areas. Of the four commercial banks, three are defined as systemically important parties subject to supervision by the Financial Stability Council in Iceland.

Total assets of the banking sector amount to ISK 3,774 billion, the equivalent to around 130% of GDP in 2019. The asset base is predominately domestic: total domestic assets are ISK 3,408 billion or 90% of total assets. Total loans in the banking sector amount to ISK 3,202 billion. The banks are predominantly funded by domestic deposits which amount to ISK 1,932 billion.

The banking sector currently has around 2,700 employees working in 80 branches around Iceland. Decreasing profitability has pushed the banking sector towards boosting returns by streamlining and cutting costs. Commercial banks and savings banks have therefore closed a considerable number of service points and, since 2020, have reduced staff with increased emphasis on electronic self-service solutions.

The overall performance of the three systemically important banks has deteriorated in recent years. The banks' return on equity was positive by 4.5% in 2019, down from 6% in 2018. The reduction in returns between 2018 and 2019 is due in large part to negative returns on discontinued operations. Credit system lending growth began to taper off over the course of 2019, led by a slowdown in corporate lending growth, and annual growth averaged less than 1% by late 2019. To some extent, slower credit growth reflects weaker growth in economic activity, but in addition to this, one of the commercial banks has announced that it is slimming down its corporate loan portfolio. 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 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.

The commercial banks in Iceland have been well prepared to handle operating difficulties, thanks to a strong capital and liquidity position, which is well above the levels required. The countercyclical capital buffer has been released, and the banks have shelved plans for dividend payments. This allows them scope for write-offs and new lending at the same time, thereby giving them the capacity to support households and businesses in times of crisis.

# Ireland

Ireland's economy posted another solid performance in 2019 with gross domestic product (GDP) up 5.6% year-on-year in terms of volume. Personal consumption rose by 3.2% and government expenditure by 6.3%. Investment and import figures are distorted, among other things, by the relocation of intellectual property (IP) to Ireland in association with external contract manufacturing activity attributable to Ireland.

Ireland's current account swung from a surplus of €19.6 billion in 2018 to a deficit of €40.4 billion in 2019, mainly due to large imports of IP. Ireland's exports of financial services fell by 9.9% in 2019, to €16.9 billion.

Unemployment also continued to fall, with the rate dropping to 4.5% by Q4 2019, down from 5.4% a year earlier. Gross household savings increased by 12.1% in 2019 to almost €14.5 billion and the gross saving ratio increased to 12.2%.

There were 58 banks operating in Ireland at the end of 2019. These included 24 credit institutions authorised in Ireland (of which five were covered bond banks), 32 branches of banks authorised in other European Economic Area countries that were operating in Ireland. Eighteen of the credit institutions were headquartered in Ireland or had more than 20% of their business with domestic customers. While the number of banks has been relatively stable in recent years, the number of credit unions - not-for-profit, member-owned financial cooperatives funded primarily by member deposits – fell from 252 to 241 between September 2018 and September 2019 as credit unions consolidated. Most credit unions have assets of less than €100 million. However, the number of credit unions with less than €40 million in assets dropped to 103 in September 2019, down from 285 in September 2013.

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 operated 648 branches and almost 2,900 ATMs for cash withdrawal nationwide by the end of 2019. Independent companies have increased their ATM fleets in Ireland in recent years.

Card payments continued to grow strongly, driven by debit cards for which volumes grew by 18.3% in 2019 to more than 1.1 billion. The expansion of contactless card payments has helped to reduce consumers' dependence on cash. Contactless payment volumes grew by 40% in 2019 and accounted for about 40% of total card payment volumes.

Ireland is one of only a handful of countries worldwide where cheques are still regularly used, however cheque usage has fallen sharply in recent years: Irish cheque usage per capita was down from 22.1 in 2009 to 6.4 in 2019.

Some 73% of Internet users engaged in Internet banking in 2019, according to the CSO.

Outstanding credit institution loan balances have declined in recent years as both businesses and consumers have deleveraged, but gross new lending grew in 2019.

BPFI research shows that new residential mortgage lending rose by 9% year-on-year to €9.5 billion, including €1.3 billion of re-mortgaging with a new lender or switching. The first-time buyer (FTB) market has been accounting for most of the activity in the mortgage market in recent years. FTBs accounted for around 51% of the total value of mortgage drawdowns in 2019 compared to just over 21% in 2006 when mortgage drawdown activity was at its peak. Some banks provide discounted fixed interest rates on mortgages secured on residential properties with higher energy efficiency ratings, based on the national Building Energy Rating. The availability of the discounted rates varies depending on the bank.

Gross new lending to non-financial small and medium-sized enterprises (SMEs), excluding financial intermediation, rose by 1% year-on-year to €5.4 billion during 2019, according to the Central Bank of Ireland. Net lending to SMEs (drawdowns less repayments) declined by €759 million over 2019.

The government-owned Strategic Banking Corporation of Ireland provides wholesale funding to banks and non-bank financial institutions for on-lending to SMEs. By the end of 2019, it had supported some €1.4 billion in lending, including almost €1 billion in SBCI-funded loans to SMEs and €0.4 billion in SBCI risk-sharing schemes.

Some €21.4 billion of the €40.1 billion loans outstanding to Irish resident private-sector enterprises (excluding financial intermediation) was outstanding to SMEs at the end of 2019. Housing loans of €76.5 billion were on the balance sheets of credit institutions, with a further €16.3 billion in securitised loans. When non-banks are included, the value of mortgage debt outstanding fell from €117.6 billion to €115.1 billion in 2019.

Non-mortgage personal credit outstanding increased to €14.4 billion by the end of 2019, from €14 billion a year earlier.

Credit institution deposits grew strongly, with private household deposits increasing by 6.1% year-on-year to €104.1 billion at the end of 2019, and deposits of Irish resident private-sector enterprises (excluding financial intermediation) jumping from €58 billion to almost €68 billion. Much of the growth in deposits came from overnight deposits, with household current account balances increasing from €34 billion to €38.5 billion during 2019.

An Post, the State-owned postal service operator, managed a further €21.2 billion in national savings schemes and post office savings accounts on behalf of the national treasury.

Credit institutions in Ireland, including credit unions, employed almost 27,700 people at the end of 2019. Banks paid some €2.9 billion in wages and salaries in 2019, of which banks mainly active in international markets paid more than €0.8 billion. Banks 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 non-performing loan (NPL) ratios. According to EBA data, the NPL ratio was 3.3% as of December 2019, down from 5.8% and 10.5% in December 2018 and December 2017, respectively.

Gross value added (GVA) by the banking sector was estimated at €5.3 billion in 2017, according to the Central Statistics Office. Profit after interest and tax fell from €3.8 billion in 2018 to €2.5 billion in 2019. Ireland was also the eighth largest exporter of financial services (excluding insurance and pension services) in the world in 2019, according to UNCTAD.

Total credit institution balance sheet assets rose to more than €675 billion at the end of 2019, the highest level since March 2015, mainly reflecting an increase of €43 billion in loans outstanding to non-residents. In terms of liabilities, deposits from Irish private-sector residents remain a key source of funding and increased by €25 billion during 2019.

# Italy

The Italian economy has continued to slow down last year. Real GDP growth went down from 0.8% in 2018 to 0.3% in 2019. The COVID-19 pandemic and the related containment measures had a strong impact on the real economy. Real GDP fell by 5.5% in Q1 and by 12.8% in Q2 2020 (quarter-on-quarter). However, a rebound is expected in the second half of 2020 supported by policy measures. Indeed, industrial production recorded a monthly increase of 7.4% last July (month-on-month). The expected recovery will be supported by the Italian economy's strengths, such as high household wealth, low private sector debt and resilient banking sector.

Italian banks found themselves facing an unfavorable macro environment from an overall stronger position than they had at the start of the 2008 financial crisis. Much has changed since then: credit risk is reducing, capitalization is rising, restructuring and consolidation are going on, and profitability is recovering.

Total funding from customers showed an upward trend in 2019 driven by deposits, while retail bonds continued to decline. Overall, the latest figures indicate that total funding from customers (deposits and bonds) grew by 4.8%.

In 2019 the Italian banks' asset quality also continued to improve steadily, both in terms of flows and stock of non-performing loans (NPLs). The flow of new NPLs, which has been decreasing since 2014, stood at approximately 1.2% of total loans, below the pre-crisis average. The stock of NPLs, net of provisions, stood at €70 billion at the end of 2019 (-22% year-on-year). Net bad loans or "sofferenze nette" fell to €26.5 billion (1.55% as a percentage of loans), 67% less than the peak touched in November 2015. The reduction in NPLs inflows, combined with the simultaneous increase in their outflows, has led to a sharp reduction in the NPL ratio: it decreased from 16.5% of 2015 to 6.6% if measured in gross terms, or from almost 10% to 3.3% if measured in net terms (which means taking into account the losses on NPLs already accounted for in banks' balance sheet). The impact of the pandemic crisis on credit quality will be mitigated by the effects of the measures adopted by the Government.

The coverage ratio stood at 52.4% for total NPLs and 63.6% for bad loans. The ratio of net NPLs to total loans of the Italian significant groups was only 1.4 percentage points higher than that of euro-area significant banks as a whole.

Capital adequacy has also increased and is well above the minimum prudential target requested by banking supervisors. Common equity tier 1 ratio of the whole banking sector stood at around 13.9% at year-end 2019 (13.9% for Significant Banks and 16.0% for Less Significant Banks), over 60 basis points more than at the end of 2018.

In 2019, the profitability of Italian banks slightly decreased compared to the previous year, mainly due to the reduction in interest income and higher tax charges. The return on equity (ROE), net of extraordinary components, was 5.0% (4.9% for Significant Banks and 6.5% for Less Significant Banks).

The restructuring and the consolidation of the Italian banking sector is an ongoing development, partly induced by the changing regulatory environment and the digital revolution. At the end of 2019, Italy's banking industry (comprising bank holding groups and independent banks) consisted of 113 active players.

Banks have been downsizing their geographical presence since the second half of the last decade, reducing the number of branches and employees. Between 2008 and 2019 the number of branches decreased by 29% (to 24,350) and the number of employees by 17% (to 280,219). Following the streamlining of the branch network, the average number of bank branches per 100,000 inhabitants decreased by about 32% compared with 2008. The reduction in the number of branches and employees was achieved by more than 90% by Significant Banks; at the end of 2019 these banks held around 60% of the branches and employees (just over two thirds in 2009).

The digitalisation of banking customers has shown a strong acceleration. In 2019, the share of customers accessing banking services through these channels had risen by four percentage points, to 80%.

Italian banks and financial intermediaries are also developing a large number of projects in the Fintech sector. An example is offered by Spunta, the blockchain of the Italian banking sector, which already operates with 55 banks corresponding to the 82% of the sector in terms of employees. Spunta Banca DLT (Distributed ledger technology), the project promoted by ABI and coordinated by its research and innovation ABI Lab, is fully operational for the interbank reconciliation process. The 55 banks that operate on a blockchain to date have moved the entire process from a traditional slow and labour intensive exchange of telephone calls and messages to a fully technology-based solution that streamlines and automates the reconciliation of transactions.

# Latvia

Compared to 2018, the economic growth continued and Gross Domestic Product (GDP) increased by 2.2%. In 2019, GDP in Latvia at current prices amounted to €30.5 billion.

Banking sector is secured with the necessary preconditions to work with a clear awareness of the specific risks in Latvia. Reforms that have taken place since 2018 have resulted in one of the most effective financial crime prevention systems. Latvia, as first from *Moneyval* Member States, successfully implemented all 40 of the Financial Action Task Force recommendations, as well as introduced a public-private partnership and a fully available register of ultimate beneficial owners. An international credit rating agency S&P Global Ratings (S&P) upgraded Latvia from 'A' to 'A+' level with a stable outlook. Agency's assigned 'A+' credit rating ensures historically highest credit rating level since 1997, when credit rating was assigned to the Republic of Latvia for the first time.

In December 2019, there are 16 banks operating in Latvia, including 13 credit institutions registered in Latvia, and three branches of credit institutions registered elsewhere in the EU. The Latvian banking sector is dominated by Nordic banking groups.

Total assets of Latvian banks were €23.20 billion as of December 31, 2019. The assets increased by €0.25 billion or 1% in the 4<sup>th</sup> quarter of 2019, the increase was €0.33 billion during the year 2019. The assets were €31.9 billion at the end of 2015, it had a negative trend since 2016. Main reasons for assets' decrease were the changes in business strategies and business models, optimization of capital expenses, as well as the licence withdrawal of ABLV Bank.

Total capital decreased by €0.16 billion or 6% in the 4<sup>th</sup> quarter of 2019, thus the total amount decreased by €0.19 billion during 2019. Its most material impact was attributed to the net loss of insolvent AS PNB Bank.

The loan portfolio decreased by €0.45 billion or 3% in the 4<sup>th</sup> quarter of 2019. The total decrease was €0.09 billion or 0.7% in the 12 months of 2019. Main decrease was in loans to corporates. The corporates amount to 60% of the total loan portfolio. Loans to individuals increased by €0.12 billion or 2% in 2019. Eight banks had loan portfolio increase in 2019.

Total deposits of the Latvian banking sector were €17.21 billion as of December 31, 2019. The portfolio has increased by €0.65 billion or 4% in the 4<sup>th</sup> quarter of 2019, and the value increased by €0.87 billion or 5% since the beginning of 2019. Deposits of individuals continue to increase and increased by 10.5% since the beginning of 2019. They make 54% of total deposits portfolio. Short-term deposits make 80% from total deposit volume, the remaining 20% are long-term deposits.

Total profit of banks in Latvia in 2019 was €175 million or 59% less compared to the results in 2018. It was affected by net loss of insolvent AS PNB Bank in 2019.

The Latvian banking sector is stable, resilient and well capitalized. 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

As a member of the European Economic Area (EEA), the Liechtenstein economy takes part in the European single market and due to the customs and Swiss Franc currency union, the country 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 end of May 2020. The economic indicators show an extremely stable starting position. Direct exports of goods from Liechtenstein companies increased by 1.1% in 2019. Employment grew by 2.6% while the average unemployment rate fell to 1.5%.

By the end of 2019, there were 13 fully licensed banks operating in Liechtenstein. Four of them are subsidiaries of Swiss, Luxembourgish and Chinese institutions, the others are Liechtenstein banks. 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, 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 0.7% compared to the previous year, and Lombard loans. Total loans are stable around CHF 30.0 billion and amounted to 44.0% of total assets, whereas the share of both loan types is more or less equal. Residential mortgages amount to 80% 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 44.4 billion and domestic households account for more than 25 % 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 continuously increased.

A demanding environment encompassing negative interest rates, volatile financial markets and costly regulation continued to challenge the sector. 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 2019.

The consolidated AuM reached a new peak once again (up 14.4% to CHF 349.8 billion) whereas the growth in Liechtenstein amounts to 9.5% (CHF 174.21 billion). Even more important is the fact that net new money

could be attracted, CHF 0.9 billion by Liechtenstein banks and CHF 20.4 billion on a consolidated level. Total balance sheet assets increased to CHF 17.4 billion (up 6.2%).

The result from normal business activity slightly decreased by 11.6% to CHF 345.1 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%, both at individual and consolidated level. 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 24% to Liechtenstein's GDP and 16% to the workforce. The banks continue to be important employers. More than 75 full-time positions were created in 2019. The banking industry employs a total of 2,203 people (full-time equivalents) and offers 60 apprentices an attractive entry into their careers, with a share of women exceeding 50%. With a stake of around 44% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more prominent.

# Lithuania

The Lithuanian economy has been growing steadily since 2015. Recent data shows that Lithuania's Gross Domestic Product growth during 2019 beat all previous forecasts: GDP increased by 3.9% (Lithuanian Ministry of Finance predicted 2.6% growth). Such an increase was facilitated by the rise in export volume, which was the highest in the Baltic States, and 9.6% in 2019. In addition, during 2019, net inflows of foreign direct investment amounted to 2.5% of GDP, compared with 1.6% in 2018, which also contributed to economic growth.

The favourable economic environment of 2019 had a positive effect on the banking sector, both the volume of banking activities and the number of new participants grew. The Lithuanian banking sector consisted of 18 banks of which ten were holding either a bank or a specialized bank licence, while eight banks were carrying out their activities as foreign bank branches. In addition to three new specialized banks licensed in 2018, two more specialized bank licences, and one bank licence were issued during 2019. Specialized banks are associated with the development of FinTech (financial technologies) in Lithuania. The figures make Lithuania the second largest fintech hub in Europe by the number of licensed companies, only behind the UK, and the largest within the EU. The Bank of Lithuania offers help and guidance to potential financial market participants via its Newcomer Program, which attracts new companies and encourages them to develop new products in the country.

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 Mano bankas, are considerably smaller and are owned by groups of local and foreign investors. In the foreign banks' branches, Scandinavian capital also dominates. There are 45 credit unions united by the Lithuanian Central Credit Union. The Lithuanian government has no ownership stake in the banking sector.

Bank efficiency in Lithuania remains one of the highest in the European Union. The comparative data of the European Banking Authority (EBA) for the third quarter of 2019 show that the Lithuanian banks included in the EBA sample were the most efficient in the entire banking system of the EU countries. This means that banks in Lithuania are among the most profitable in the European Union.

Banks increase their efficiency by minimizing their operating costs – market players continue to close branches and reorganize them into customer consulting centres, as the customer's movement to digital banking gathers pace. For example, the number of customers using Smart-ID, a digital personal identification tool, exceeded 1 million which is 35% of the Lithuanian population.

For the first time in history the Lithuanian banks' assets surpassed the €30 billion mark, a 7.2% increase during 2019. The reason for such rapid breakthrough in the banking sector was the record growth rate of customer deposits, which grew by as much as 15% over the year (17% corporate clients and 15% private individuals). This was facilitated by the rise in income and employment in Lithuania during 2019.

The acceleration in loan growth slowed during 2019. The bank loan portfolio rose by 3% due to a slowdown in corporate lending, which amounts to 43% of the total loan portfolio. Nevertheless, the households were still actively borrowing to obtain housing, a 7% growth compared to 2018. Therefore, the housing market

remains active and funding conditions are favourable and supportive, as final interest rates on loans remain one of the lowest in the euro area.

The prudent credit policy and good results of the Lithuanian economy have allowed banks to maintain the non-performing loan ratio at the very low level of 1.6%, which is the lowest indicator per decade in Lithuania.

Moreover, the Lithuanian banks are stable, resilient, and well-capitalized as all of them comply with the prudential standards that are set. The capital adequacy ratios exceed the established standards and, according to the CET1 index, Lithuania was among the top 5 EU countries in 2019 with a very high indicator. The level of bank liquidity remained high and the volume of liquid assets held by banks increased from 254% to 272% during 2019 and more than doubled the set of minimum requirements of 100%.

All the mentioned facts about Lithuanian banks enable them to function stably and fulfil their natural function, that of financing the economy and stimulating economic growth.

# Luxembourg

Luxembourg is an international financial centre located at the heart of Europe. The financial sector includes various banking business models, from international private and wealth management, retail banking, corporate finance to fund services and depositary banking. As well as the key industries, Luxembourg boasts a unique and complete financial eco system, comprising the whole range of services and skills necessary to support and develop the industry as a whole: market infrastructures, law firms, consultants, education and training, IT partners and FinTech firms.

Because of this comprehensive eco system, Luxembourg is globally recognised as an international financial hub. It has the highest banking internationalisation rate in Europe (94% of banks are foreign, with more than one third of banks coming from outside the European Union). These banks operate on a cross-border basis, using the EU passport for financial services throughout Europe, particularly in private banking, corporate banking and asset servicing.

The Luxembourg economy grew by 2.3% in 2019, mainly driven by strong consumer spending. Employment grew 0.8% year-on-year, and by 3% in the financial sector. The Luxembourg financial services workforce is internationally recognised as extremely skilled, multicultural and highly productive. The financial sector is the economic engine of the country, representing around a third of GDP, 11% of employment and contributing 21% of fiscal revenues in 2019.

Banks in Luxembourg have sufficient own funds to face any potential challenges, with a CET1 ratio of 24.4% (much higher than many other European countries). Solvency ratios of 25.2% are well above the thresholds, and banks have a high level of capitalisation.

Loans increased by 6.3% year-on-year, thanks to the contribution of the retail, private and corporate banking sectors. Deposits increased at the same pace, growing by 6.2% between 2018 to 2019. Deposits are generally higher than outstanding loans, ensuring a robust stability and high levels of liquidity in Luxembourg credit institutions.

Luxembourg has always welcomed international financial institutions, and in recent years its stable and diversified ecosystem has facilitated the establishment of several new banks, including the seven largest Chinese banks, and several UK institutions creating a European hub post-Brexit. Luxembourg is also leveraging its unique strengths to position itself as a leader in innovative financial technologies, with a close cooperation between the financial institutions and FinTech companies, facilitated both by the ABBL and other public-private partnerships.

Similarly, Luxembourg's commitment to sustainable finance has created an ideal environment for mobilising international capital to fund 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 and that the offer is constantly being expanded.

Building on its strong track record of openness, stability and agility, Luxembourg is also becoming a key location for e-commerce, e-payment institutions and FinTechs directly linked to financial services. The open and constructive dialogue between the relevant players (public, private and supervisory) ensures that Luxembourg continues to be an attractive and secure place to do business.

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# Malta

In 2019, economic growth in Malta remained healthy, with real GDP growth at 4.4%, albeit markedly lower than the 7.3% registered for 2018. In a small island-state economy 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 2019 the increase of exports of goods and services at 1.7%, was lower when compared with the 3.5% registered for 2018. The seasonally adjusted unemployment rate published by Eurostat averaged around 3.5% in 2019 – an historic low. On the other hand productivity growth turned negative. In 2019, this stood at -1.1%, compared with 1.2% in 2018. Meanwhile, public finances improved further, with the general government debt falling in 2018 by 2.4 percentage points, to 43.2% of GDP notwithstanding the budget surplus which narrowed to around 0.8% of GDP. However, within the context of a brisk pace of expansion and tight labour market, the annual inflation rate based on the Harmonised Index of Consumer Prices, averaged 1.6 % in 2019 as against the 1.2% registered in 2018. This said, during 2019 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 23 (operative) licensed banks at the end of 2019, 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, around 60% of the banking sector's total assets of almost €42 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 (almost €25 billion) represented 186.7% of Malta's GDP (8.3 percentage points fewer than 2018). The core banks employ 82% of the sector's workforce numbering around 4,932 employees. Two of these banks are the local market leaders, holding around 71% of this cohort's assets, and in 2019 operated 64 of the 97 branches of the core banks 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 from, and loans to, this latter sector increased by 3.6% and 8.3% respectively in 2019.

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 decreased to 59.6% in 2019 (almost 61% for 2018). On the asset side, the percentage of loans made to Maltese residents for 2019 increased to around 89% when compared to the previous year's figure of around 85%. As can be seen, core domestic banks continued to apply 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 to risk-weighted assets of 17.4%), 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 around €3 billion represented 22.2% of Malta’s GDP. These banks undertake some business with Maltese residents, but not as their core activity. As such, while the linkages with the domestic economy remained limited, both resident assets and resident liabilities picked up momentum as these banks continued to penetrate the domestic market. With a Tier 1 capital adequacy ratio of 17.1%, well in excess of the required number, these banks have a good shock-absorbing capacity to cover a potential deterioration in asset quality. Furthermore, considering their limited exposure to the domestic economy, these banks are not deemed to pose a threat to domestic financial stability.

Twelve 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 €13.6 billion (a substantial contraction of 22% on 2018), represented around 102% 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.

In September 2019, MONEYVAL granted a period of one year for Malta to address identified shortcomings related to AML/CFT supervision and the money laundering framework. The relevant authorities are on course to address all MONEYVAL recommendations in time for the submission of their follow-up report which is due to take place in October 2020. In addition, Malta’s AML/CFT regime was updated in line with the Fifth Anti-Money Laundering Directive and takes into consideration the recommendations made by MONEYVAL and the Venice Commission.

# The Netherlands

The Dutch economy has experienced a period of economic boom in the last three years, with GDP growth equalling 2.5% - 3% on average. The Dutch banking sector plays an important role in the economic functioning of the Netherlands and has a relatively large size when compared to the GDP. Its assets accounted for 314% of GDP in 2020, down from 530% of GDP in 2007. The decline in balance size, combined with developments such as digitisation and cost reduction programmes, logically have led to a net decline in employment within the banking sector. In 2019, about 70,000 people were employed in the Dutch banking sector (based on NVB's members).

The larger Dutch banks are internationally active to serve the open and export-oriented Dutch economy. The five largest Dutch banks account for about 85% of the total assets of the sector. However, with the European Banking Union phased in step by step, the European market gradually becomes the relevant 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. Capitalisation of Dutch banks is above eurozone average. Cost reduction and digitalisation drive profitability. The market is dynamic, new entrants have entered, for example, the Dutch market for mortgages in the last years. Nowadays, roughly 50% of new mortgage loans are issued by non-banks.

Card payments are increasing each year and preferred over 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 the youth, payments are primarily initiated by mobile applications.

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 consequence of lower demand for loans. The percentage of non-performing loans is low and the Netherlands ranks among the best in the EU among its peers. Flexible forms of finance such as leasing and factoring have become more popular in recent years, but in terms of volume, compared to outstanding bank loans, the preference for using alternative forms of finance is limited. Companies 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 lent to SMEs. About 10% of the outstanding amount are loans of less than €250,000.

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: 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 that the Dutch banking sector is in healthy shape and capable of continuing credit lines in the case of a severe recession. The capital position of Dutch banks has improved continuously in recent years. Core Equity Tier 1 capital has almost tripled for the three largest banks since the financial crisis.

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# Norway

The Norwegian economy has performed rather well in recent years. Growth in GDP in 2019 ended at 2.3% for Mainland Norway, and 1.2% for Norway. Unemployment has been fairly stable at a relative low level (registered unemployment at 2.2%, 3.9% according to the Labor Force Survey). Growth has been supported by an expansionary monetary and fiscal policy. However, as the economic activity picked up after the large decline in the oil price in 2014, the Central Bank of Norway hiked the key policy (deposit) rate in 2018 and 2019. From (at the time) a record low level of 0.5% the Central bank increased the key policy rate on four occasions, bringing the rate up to 1.5%.

The Norwegian banking sector is characterised by a few very large commercial banks, some regional based and several small savings banks. At the end of 2019 the Norwegian banking sector consisted of 119 banks. In addition, there were three subsidiaries and 14 branches of foreign banks operating in Norway. The market share of the subsidiaries and branches of foreign banks were 24% and 38% in the retail and domestic corporate market, respectively.

At year-end 2019, the aggregate assets of the banking sector (including foreign entities) amounted to around €645 billion. The Norwegian banks' return on equity was on average 12.5% in 2019, an increase of 0.4 percentage points from 2018. Losses were 0.19% of gross lending. The level of losses was influenced by the growth in consumer lending in recent years. The capital adequacy in Norwegian banks increased by 1.7 percentage points to 17.9% in 2019, particularly due to the capital regulation being amended to be in line with EU legislation. The leverage ratio was on average 8%.

As more and more people are using banking services online, the number of physical branches has decreased significantly over 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 2019, the cost/income ratio in Norwegian banks was on average 44%.

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 (approx. €200,000) per depositor per bank, but may be changed in the future to the equivalent of €100,000 to be aligned with the EU. The deposit-to-loan ratio (deposits as a share of gross loans to customers) for Norwegian parent banks was 91% at year-end 2019. The high level is due to the transfer of mortgages to separate credit institutions (with the purpose of issuing covered bonds). By 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 three percentage points relative to other corporates (22% tax rate in 2019).

The Norwegian financial sector supports the ESG agenda and is involved in and has launched several initiatives in this area. The Roadmap for Green Competitiveness in the Norwegian Financial Sector,

developed by Finance Norway, is an example of 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 that Norwegian financial institutions have the same rights and obligations as institutions established within the EU.

# Poland

Poland is the largest economy in Central and Eastern Europe. According to the assessment of the European Commission in 2019 Polish economic conditions remained favourable despite an outlook of slower growth, which was however strong. At the end of the year GDP was estimated at the level of 4.0% (5.1% in 2018). As main drivers of growth, household consumption and employment remained high. The unemployment rate stabilised at record lows (5.2%). Other factors that had a positive impact on the country's economic development included: lowered personal income taxes, to some extent increased social transfers, and private and public investment, including the projects supported by EU funds. It is worth noticing that export performance remained generally favourable, especially against the backdrop of weakened global and EU trade.

The Polish banking system is characterized by high stability and safety. It has also shown resilience and avoided serious problems during various financial crises that hit credit institutions in other Member States.

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 representatives of the Polish National Central Bank (NBP), the Ministry of Finance, the KNF and the BFG.

At the end of 2019 the Polish financial landscape was made up of 30 commercial banks, 538 cooperative banks and 32 branches of credit institutions. In 2019, the ownership structure of the Polish banking sector slightly changed. The number of commercial banks controlled by the State Treasury was still eight, however the number of commercial banks controlled by private capital fell by two in 2019 to 22, with five commercial banks and all cooperative banks still controlled by Polish private capital; 17 commercial banks were controlled by foreign capital, two less than in 2018.

Due to the requirements of the CRD IV package, and in reference to national regulations, cooperative banks had to make the final decision in 2018 on the form of their activity: joining one of the two existing Institutional Protection Schemes or conducting business independently. Nearly all cooperative banks have decided to join the IPS. Despite the large number of these institutions, their market share remains stable at the level of 7.5% of the sector's total assets.

In 2019, the Polish banking sector's assets totalled €469.68 billion. The value of the total balance sheet increased by 5.6% compared to the previous year. The size of the banking sector, relative to GDP, remains quite low in comparison to other EU economies (88.3% at the end of 2019).

The credit portfolio plays a dominant position in total assets (55%). In 2019, the trend from the previous four years was reversed. A faster growth rate of banks' claims on households than on enterprises was noted. The growth rate of claims on enterprises amounted to 3%, and claims on households, approx. 5.2%. However 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 NPL ratio at a relatively low level (6.4%).

The year 2019 was characterised by the rapid growth of household deposits, which represent 72,4% of all non-financial sector deposits. The ratio of non-financial sector deposits to GDP was estimated at around 56,2%. However, the share of long-term deposits is limited and term mismatch on the credit and deposit side is significant.

Polish banks registered in 2019 a return on equity (ROE) of 7.2% and return on assets (ROA) of 0.75%. These results remain moderate but were higher in comparison to 2018 (ROE: 6.5%, ROA: 0.71%). The improvement in profitability ratios was caused by a moderate growth of banks' equity within twelve months and the stronger growth rate of the financial result (in case of ROE), and along with a relatively slow growth of banks' assets (ROA). In the last years, we observe bigger splitting in banking financial results. Bigger institutions achieve higher return rates and the smaller ones much lower returns.

However, the key challenges banks have to face are excessive regulatory and fiscal burdens. For example, the Polish banking tax, which came into force in February 2016, is one of these burdens. 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 bank portfolio are excluded from taxation. The rate applied to the taxable base is 0.0366% per month (0.44% annually). In 2019 financial institutions paid around €0.94 billion as a banking tax. The fees paid to the deposit guarantee scheme and to resolution fund are also big burden for banks. Both banking tax and above mentioned fees are not deductible for income tax calculation purposes. Banking tax and fee on the BFG were equal to 1/3 operational costs of bank.

The average TCR in the domestic banking sector remained at the similar level as in previous year. At the end of 2019 the ratio was 19.1%, and the Common Equity Tier 1 and Tier 1 capital ratios were estimated above 17%.

At the end of 2019, 37,4 million clients had access to online banking services. The number of active users of banking mobile applications increased last year by over 15.2% and amounted to 12 million. The Polish banking sector is very modern, amongst one the most modern in the economy. Banks played a very active role in the distribution of public support to enterprises and individuals thanks to their modern infrastructure. During the pandemic time the share of non-cash transaction rised significantly.

# Portugal

In 2019, the Portuguese economy grew by 2.2% (-0.4 percentage points year-on-year). Investment and public consumption accelerated, but private consumption rose less than in 2018 and domestic demand decreased its contribution to GDP growth. Net external demand also had a more negative contribution as the deceleration in exports of goods and services was higher than that of imports.

The progress made by the Portuguese banking sector, in the period that followed the sovereign debt crisis, has been significant. At the end of 2019, the sector showed considerable improvement, in terms of efficiency, liquidity, asset quality, profitability, and solvency.

At the end of 2019, the Portuguese banking system comprised 148 institutions, 60 of which were banks (including 32 branches of foreign banks), 85 mutual agricultural credit banks and three savings banks, with the five largest banks accounting for 77% of total assets. The number of bank employees stood at 46,444, equivalent to approximately 1% of the country's total active workforce.

Solvency has been strongly reinforced: CET1 reached 14.3% in 2019 (versus Core Tier 1 of 7.4% in 2010); liquidity stood at comfortable levels (loan-to deposit ratio of 87.1% versus 158.7% in June 2010; liquidity coverage ratio at 218.5%); although still low, profitability improved (RoE reached 4.9%); non-performing loans (NPL) had an impressive development, falling by €33.3 billion since the maximum level attained in June 2016.

In terms of balance-sheet structure, on the asset side, it is worth highlighting the positive growth in the stock of loans to customers, which rose 1.8% year-on-year. Considering the domestic activity, loans to non-financial corporations (NFCs) fell 3.7% to €67.0 billion, which nonetheless rose 1.1%, adjusted for securitisation and liquidity providing operations. In Portugal, SMEs represent a fundamental part of the business economy: according to the [latest data](#), SMEs account for: i) more than 99.9% of total NFCs, of which most are micro-enterprises (96.2%); ii) 59.9% of the overall value-added; and iii) 71.1% of the total labour force (paid jobs). In 2019, loans to SMEs, which correspond to 78.4% of total corporate loans, decreased 2.9% year-on-year to €52.5 billion.

Loans to households rose 3.0% (or 1.1% considering the adjusted annual growth rate).

Asset quality improved significantly. Ambitious strategies have been implemented to reduce NPL and remarkable progress has been achieved: since the peak reached in June 2016, NPL have decreased by €33.3 billion; the NPL ratio has decreased from 17.9%, in June 2016, and to 6.2%, in 2019, while the NPL coverage ratio increased from 43.2% to 51.3% in the same period. SMEs' overdue credit dropped significantly (down 42.6% year-on-year or €2.2 billion), with the corresponding ratio standing at 5.5% (versus 8.8% in 2018), mostly fuelled by the performance of micro companies. Since the financial crisis, there has been an important reduction of the exposure of the banking sector in the construction and real estate sectors, which were the main sectors associated with non-performing loans.

Customer deposits rose by 4.0% year-on-year and reinforced the position as the main source of bank funding (75.5% in 2019 versus 73.8% in 2018).

The sector recorded an income of €1.9 billion (versus €1.3 billion in 2018) largely explained by the increase in the total operating income, net reversal of provisions, and the decrease in income taxes.

The digital transformation is a priority for the Portuguese banks and strong progress has been achieved on this front. Internet banking users have increased from 38,1% in 2010 to 55,7% in 2019. Moreover, 61% of internet banking customers use mobile networks and 67.3 % of current accounts have online access. The number of payment cards issued totalled 22.4 million and the amount of online purchases represented 7.5% of card purchases, which compares to 5.7% in 2018.

Portugal is strongly committed to promoting a more efficient, sustainable and inclusive economy. The Portuguese government set ambitious medium and long-term targets for energy consumption, renewable energy and carbon neutrality. The additional investment needed to achieve carbon neutrality by 2050 is estimated between €2.1 to €2.5 billion per year (around 1.2% of GDP). 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 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'Environnement). Recently, the Portuguese government decided to make hydrogen a pillar of the country's energy transition and approved the National Hydrogen Strategy (EN-H2), which foresees investments of €7 billion by 2030. In addition to public intervention, credit institutions are providing a complementary suite of financing options targeting energy efficiency, renewable energy, electric vehicles and other sustainable investments.

# Romania

In 2019, Romania's economy had robust growth, i.e. 4.1%, supported by domestic absorption. The European Commission's prognosis indicates a real GDP contraction of 6% in 2020, followed by a recovery of only 4% in 2021.

The consumer prices' inflation rate rose to 3.86% in 2019. Romania has the highest level of twin deficits across the European Union. Last year, the general budget execution closed with a deficit of over 4.6% of the GDP. During 2019, the balance of payments' current account posted a deficit of €10.4 billion, according to the National Bank of Romania's data. The unemployment rate continued its downward trend and was close to an historical low at the end of 2019, namely 3%.

At the end of 2019, 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 73.7% of the Romanian banking sector assets were held by institutions with foreign capital in 2019, a downward trend compared to the 91.3% registered at the end of 2016. In 2019, contemplating the expansion of digitalization and the optimization of operational expenses, the banks' branch network shrank by 6.4% to 4,758 banking outlets while the number of employees stood at 53,106.

The Romanian banking sector entered the healthcare crisis prepared, its solvency and liquidity ratios standing at levels higher than the European averages. The quick liquidity stood at 43.8% at the end of 2019. The rate of total own funds was 20% while the rate of tier-one capital was 18%, these levels being both slightly higher than the respective European averages. The NBR data shows that the NPL provision coverage rate went up to 60.6% at the end of 2019, which is a rate significantly higher than the European average (44.6%), while the NPL rate has had the tendency to be in line with the European average.

In the banking sector, ROA and ROE stood at 1.21% and 11.28%, respectively, after the first six months of 2019. If we make a quick analysis of profitability, we see that, in 2019, the domestic banking sector ranked 11<sup>th</sup> and 7<sup>th</sup> respectively among the European Union Member States as regards ROA (1.4%) and ROE (12.3%).

The banking sector's assets, which were €110 billion in 2019 and which show the size of the funding granted to the economy, increased 30 times in the last two decades.

The non-performing loans rate shrank by about five times in the last five years to 4.09% (December 2019).

The annual growth of non-government credit was 6.6% for the year 2019 to 267.5 billion lei (€56 billion). The loans-to-deposit ratio dropped to 70.99%. Domestic saving went up by 11.5% during 2019, increasing to €77 billion.

Unfortunately, during this period, specific for the banking industry, legal risk continued to be high. The uncertain and unpredictable legal framework has continued to be, for the 4<sup>th</sup> 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 with the European Union.

Furthermore, after 14 years in the EU, as part of the European family, Romania's nominal Gross Domestic Product advanced by 256% to about €221 billion. In Romania, GDP/capita expressed as the purchasing power standard (PPS) reached 69% of the EU average in 2019 compared to 44% in 2007.

In the future, the banking industry in Romania intends to contribute to the sustainable development of Romania as well as to the Romanian society in general. Accountability in resource allocation will be of utmost importance for the development of Romania's banking sector and its economy during the post-healthcare crisis and the economic recession. The role of the measures is to preserve the banks' capacity as the national critical infrastructure, i.e. to continue being well capitalized and with liquidity ratios in line with the national and international regulations, with a view to not harming financial stability.

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# Slovakia

In 2019, Slovakia's economic growth slowed in response to declining global demand. GDP growth of 2.4% was lower than in the last year, but still above the EU average. As in the previous years, the main drivers of economic growth were investments and domestic demand, supported by an exceptionally favourable labour market situation. Foreign demand had a negative impact on Slovakia's GDP growth. Net exports declined due to increasing market uncertainty about future economic developments.

In 2019, the deficit of the general government was 1,3 % of GDP, which was more than the general government's budget proposal. Public debt last year declined to 48.0 % and remains below the first domestic debt brake thresholds (50%). Thanks to the strong economic environment in last years, the unemployment rate fell for the sixth consecutive year to an historical low (5.8%). The relatively low supply on the labour market led to an increase in average nominal wages by 7.8%. The annual inflation rate rose slightly (to 2.8%) and the largest increases were in prices of energy and food.

The Slovakian banking sector consists of 27 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). 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. Digitalization has affected the banking industry. The Slovakian banks have 1,140 branches and 19,393 employees, which is slightly fewer than in previous years. On the other hand, the number of ATM (2,791) and POS (57,845) has been growing for several years. Mobile payments have become very popular in recent years.

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, mainly due to growth in loans. Favourable economic conditions have led to an increase in retail deposits (rising by 7%) and also in corporate deposits (rising by 6 %).

Retail loans have been dominating the domestic lending market and Slovakia has one of the highest growth rates in housing loans in the EU. 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: tighter loan-to-value ratios, systemic risk buffer, the debt-to-income ratio and new indicator debt-services-to-income ratio. The main objective of these measures is to reduce retail credit growth. In response to macroprudential measures taken, growth in housing loan fell

below 10% for the first time and growth in consumer loans almost stopped. The outstanding amount of housing loans rose in 2019 by 9,7% and was still one of highest growth rates in the EU.

Growth in the corporate loans slowed due to deteriorating economic conditions. The outstanding amount of corporate loans increased by only 1.6 % year-on-year. In 2019, there was also a sharp slowdown in lending to SMEs. The outstanding amount of SME loans rose by 1.8 % 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, which doubled at the end of last year, 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 was on average 18.21%, with the lowest individual level at 15.21%. Slovakia has some of the most stable and soundest banks in the EU. According to the World Economic Forum's Global Competitiveness Report 2019, Slovakia has the third soundest banking sector in the euro area and 12<sup>th</sup> in the world.

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

# Slovenia

Throughout the entire year 2019 the growth rate of Slovenian economy decelerated gradually and slowed down from 4.1% in 2018 to 2.8% in 2019 although it still remained well above the average growth rate of 1.2% in the Euro area. Growth was mostly driven by a relatively strong domestic demand and despite declining foreign demand the current account surplus was up by 22% at the end of 2019 as compared to 2018, which resulted in a total surplus representing 6.6% of GDP. The unemployment figures were further improved in 2019 and so was the average gross wage, which nominally went up by 4.3%. The inflation rate, with HICP of 1.6%, was notably higher than the euro area inflation in 2019. The fiscal position of the country was in a fairly good shape as of the end of 2019, since general government balance improved to +0.5% of GDP and general government debt further decreased to 66.1% of GDP.

As of year-end 2019 there were 12 commercial banks, three savings banks and two branches of foreign banks operating in the Slovenian banking sector. Total assets of the banking system increased by 6.3% in 2019 and reached €41.2 billion at the end of the year, which was the equivalent to 85.8% of the GDP. After the privatization of the first and second largest bank in the country in the 2015-2018 period, government put on sale Abanka in 2019. In June 2019 Abanka was acquired by the previously privatized NKBM and with the deal finalised in February 2020. Following the completion of all legal procedures, on 1<sup>st</sup> September, the second largest bank in the country was created, with a market share of 21% of total assets. A significant change in the ownership structure also took place in the SKB banka (7.3% market share by total assets), where French Société Générale decided to withdrew completely from the ownership structure and the bank was eventually sold to the Hungarian group OTP, a newcomer to the market. The deal was signed in May and completed in December 2019.

Despite the fact that the year-on-year growth in loans to the non-banking sector, with 5.8% annually, exceeded the growth rate in 2018 by 250 basis points, a recess in credit growth towards the end of the year was noticeable, both as a result of slackened growth in corporate loans and decelerated credit activity as regards households. A slowdown in growth of loans to households, from 7% in 2018 to 6.2% in 2019, seemed to be unavoidable as the central bank decided to implement some binding macroprudential restrictions on household lending in November 2019, with the aim of mitigating and preventing excessive credit growth and excessive leverage. The two binding restrictions imposed by the Bank of Slovenia focused, firstly, on setting a cap on the ratio of annual total debt servicing costs to the consumer's annual income (DSTI) and, secondly, on a maturity cap for consumer loans. Consequently, according to the data collected by the Bank Association of Slovenia, the impact of the implemented measures was quite severe as the volume of consumer loans extended to customers in November and December, reached barely 40% of the October volume, while in the case of housing loans this proportion stood at roughly 60% only. The strong drop was also confirmed by the official statistics on household lending, published by the Bank of Slovenia. The measures represent a significant restraining factor when it comes to households crediting.

As regards the quality of the overall credit portfolio it further improved in 2019 as the share of claims, more than 90 days in arrears, decreased to 1.5% and NPE ratio settled at 2.6% towards the year end of 2019.

A heavy reliance on the deposits by the non-banking sector remains the main characteristic of the banks' funding structure. The growth in non-banking sector deposits was strong and stable and reached 7.2% at the end of 2019, while the rate of increase in households deposits was even stronger and stood at 8.7% at the year end. Consequently, deposits of the non-banking sector represented 75.4% of total liabilities and the proportion of sight deposits increased to 74% of total non-banking deposits in 2019. While deposits represent a reliable, cost effective and relatively stable source of funding, banks need to focus on the adequate management of the maturity gap as it represents a potential source of funding risk in the future.

Profitability of the banks in Slovenian banking system has increased for the fifth consecutive year since 2014 and stood at 12.26% as measured by ROE at the end of 2019. The improved profitability can be attributed to the enhanced quality of the banks' credit portfolio and a net release of impairments and provisions. However, the income risk at the level of the banking system has been assessed as elevated, especially because of the persistent low interest rate environment and decreasing lending activity. To a large extent, low interest rates are recognized as a major reason for a declining trend in net interest margins, which decreased again in 2019 and reached 1.79% at the end of the year.

The banking system is still well capitalized, although differences exist among the individual banks and savings institutions. The total capital adequacy ratio increased to 18.1% in first half of 2019 and was on a par with the euro area average on a consolidated basis, while the common equity Tier 1 capital (CET1), with 17.6%, substantially exceeded euro area average in the same period. A favourable capital position and sound structure of their credit portfolio may represent a good foundation for the challenging times ahead for Slovenian banks.

# Spain

The Spanish economy continued the path of mild slowdown in 2019 that began four years earlier. The growth rate stood at an acceptable 2% per annum, four percentage points fewer than the performance in 2018. The economic slowdown was entirely due to domestic demand. In addition, export growth also lost strength, in line with the deterioration of the international context. Imports, on the other hand, experienced a more intense slowdown than exports in line with the observed adjustment in domestic demand. In turn, the current account balance remained positive, with a value equivalent to 1.6% of GDP.

The growth of GDP was mainly driven by a strong job creation path and the leverage of the economy on credit due to favourable financial conditions. Productivity, the Achilles heel of recovery, fell by 0.3% adding to two years of continuous reduction.

The budget deficit amounted to 2.5% of GDP, the same result as in the previous year, which means that in 2019 no progress was made on the path of budgetary consolidation. As regards public borrowing, the balance of public debt outstanding stood at 96.9% of GDP.

However, the Spanish economy confronted some other challenges such as maintaining and improving macroeconomic stability, and fully being incorporated into the digital economy.

The Spanish banking sector was composed, as of December 2019, of twelve banking groups, the same as the year before, representing more than 90% of the industry. These groups include 52 private banks, two saving banks and 61 cooperative banks.

During this year, Spanish banks have continued going deeper in the cleaning up of balance sheets and in the construction of a strong CET1 on a fully loaded basis.

In terms of capital, the equity-to-assets ratio was, in December 2019 and on a solo basis, 10.0%, exactly the same as in December 2018. The consolidated regulatory capital ratio reached 11.9% (11.5% in December 2018) - fully loaded CET1. Regarding profitability, and according to EBA data, Spanish ROE was, in December 2019, 7.0% and once again above the European average (5.7%), with an efficiency ratio that remained constantly slightly below 50%. As mentioned before, the NPL ratio continues its downward trend to 3.2% (3.8% in 2018).

As far as the Spanish banks' balance sheet is concerned, the total volume of both loans and deposits has increased more than 4.7% since December of last year, including an increase in fresh credit operations up to €446 billion for SMEs and households.

Thanks to the fast digitalisation process banks' payment developments are reaching cruising speed and the SCTInst is gaining ground (the triple of the previous year's volume). More than 97% of the accounts are reachable through the SCTInst SEPA-wide and around 12% of the credit transfer were executed instantly (within two seconds). The instant mobile payment system known as BIZUM, based on a proxy database that obtains clients' IBANs, has enlarged the use cases and it is now available for e-commerce transactions. In a still cash-based economy as the Spanish one, the usage of cards for daily payments is experiencing two digits growth for its fourth consecutive year, with a rate of 16.20% in number of transactions in 2019 compared to 2018, when the GDP increased 2%. Furthermore, Spanish banks introduced optimal and safe

solutions to open accounts to third-party providers for payments' initiation and account information services, according to PSD2 requirements.

The market for sustainable financing in Spain has experienced a remarkable advance in 2019. Adding the figures for Bonds and Sustainable Lending, the segment of sustainable financing mobilized €22.78 billion. Therefore, sustainable financing has grown in our country by around 34% with respect to 2018. Overall, public and private companies, banks, autonomous communities and public agencies in our country issued green, social and sustainable bonds for a total of €9,756 million in 2019, a figure that places Spain in the top 10 of the sustainable bond ranking, a position that is higher than it should be, considering its GDP. At the same time, the loan sustainable market in Spain reached more than €13,025 million in 2019, ranging from infrastructure and renewable energy projects to real state initiatives.

On the other hand, two Financial Centres for Sustainability were created in Spain in 2019, one in Madrid called [Finresp](#) and one in Barcelona, working both together and already members of the International Network of Financial Centres for Sustainability (FC4S).

Finresp, presented at the COP25, was created to address the difficulties and needs that Spanish SMEs have in order to adapt to the requirements of the upcoming regulatory proposals on sustainable finance, recently presented by the European Commission. In this sense, Finresp's next steps will be to move forward with determination in the dissemination of sustainable finance through three layers: best practices exchange, development of sustainable webinars focused on different sectors and training courses on sustainable finance for SMEs.

# Sweden

The Sweden's GDP increased by 1.7% in 2019 compared to 2.0% in 2018, according to Eurostat. Household consumption contributed with 0.5% to total growth and public consumption, 0.1%. Exports increased more than imports and therefore net exports added 1.1%. Production of goods rose by 1.4% and services by 1.9%.

Employment increased by 0.6% in 2019. However, unemployment increased to 6.8% in 2019 compared to 6.4% in 2018.

Inflation was relatively stable during 2019 and amounted to 1.8% at year end. The Riksbank's negative repo rate between 2015 and 2019, ended at the beginning of 2020 when it was raised to 0%.

Government debt as a percentage of GDP was 35.1% in 2019, down from 38.8% in 2018.

The four main categories of banks on the Swedish market are Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2019, Sweden had a total of 125 banks, comprising 41 commercial banks, 37 foreign banks, 45 savings banks and two co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 62 in 2009 to 78 in 2019. The increase has occurred above all among Swedish commercial banks, when several credit market institutions have been transformed into commercial banks. The past two years the number of foreign banks has increased from 30 to 37.

In 2019 there were 45 independent savings banks in Sweden. Many of the savings banks are relatively small and several of them have merged during the years.

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.

There are 1,265 bank branches in Sweden in 2019 compared to 1,934 bank branches in 2009. The number of branch offices has diminished slowly in the last ten years due mainly to changing customer behaviour. Most of the bank branches are now cashless. The banking sector has around 41,000 employees in Sweden compared to 90,000 in the whole financial sector.

Normal bank services are almost exclusively performed through mobile phones, tablets and computers. Bank services like mobile payment services, Bank e-ID, e-invoices, etc. have become the new norm. According to the ECB, Swedes use non-cash payments to a larger extent than most 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 2,672 ATMs and 276,000 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 1,650 million transactions in 2008 to 3,550 million transactions in 2018.

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 by banks seven years ago and offers real-time account-to-account transfer, has 7.5 million users, which corresponds to around 70% of the Swedish population.

Falling house prices during 2019 cooled the household credit market somewhat. Household lending decreased slightly to 5.0% on an annual basis compared to 5.3% last year. Lending to Swedish non-financial companies also slowed down a bit to a growth rate of 3.9% in 2019 on an annual basis.

Deposits account for 34% of household financial assets in 2019 and is the most common household financial asset. Household deposits in banks grew by 5.0% in 2019 compared to 6.7% the previous year.

Sustainable finance is a high priority in Sweden. Initiatives in the area have started or are planned by both banks and government. Most Swedish banks offer, for example, green mortgages. Over the last years some institutions have started to issue green covered bonds to fund green mortgages.

The Swedish banks are important to the Swedish economy and employ 2% of the workforce, account for 3.8% of GDP and pay 10.5% of the corporate taxes.

The Riksbank has kept negative repo rates from 2015 to 2019 and zero interest rate from the beginning of 2020. The Swedish banks have managed to maintain satisfactory earnings despite the low interest rate environment. 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 ratios, but also because of the major banks' strong profitability.

# Switzerland

The financial sector, and particularly the banking sector, is one of the cornerstones of the Swiss economy. It contributes 9.4% to gross value added. As of year-end 2019, there were 246 banks with 2,552 branches and 6,990 ATMs in Switzerland. In addition, banks in Switzerland dispose of 211 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; restricted access to foreign markets; rising competition from both financial and non-financial actors and continuing negative interest rates. Overall, Swiss banks are affected by the negative interest rates. Interest rates on banks' sight deposits at the Swiss National Bank, which exceed an exemption threshold, remain negative at -0.75%. And the 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 good 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 382 FinTech companies. A third of them are active in the field of Distributed Ledger Technology. In August 2019, the first two blockchain service providers were granted banking and securities dealer licences by the authorities.

Almost half of the CHF 7,893 billion (€7,269 billion) assets currently managed by Swiss banks originated abroad. This is the equivalent to approximately 25% of the market share in global cross-border private wealth management business, making Switzerland the global leader in the field.

The banks' lending business remains key for the economic development of Switzerland, especially for SMEs which employ around 68% of the labour force in Switzerland. Swiss SMEs that make use of external capital primarily rely on bank financing. Over 90% of the companies that applied for a bank loan received an approval. The total outstanding domestic credit volume in 2019 rose moderately to CHF 1,213 billion (€1,117 billion) of which CHF 1,043 billion (€961 billion) are attributable to domestic mortgage lending.

Clients with banks and securities dealers that 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.

The aggregate balance sheet of all the banks in Switzerland amounts to CHF 3,318 billion in 2019 (€3,056 billion). The economic contribution of banks remains high, since banks are important consumers of goods and services.

Switzerland's economy shows continuous growth and a low unemployment rate. In 2019, real gross domestic product (GDP) grew by 0.9% with moderate growth rates in each quarter. As in the previous year, manufacturing proved to be the biggest growth driver. On the expenditure side, both foreign trade and domestic demand supported growth. Banking services were one of the few sectors with overall negative growth over the last five years. Outsourcing activities and the demand for preliminary goods and services from other sectors, however, lead to orders for companies along the entire upstream value chain. The average unemployment rate for Switzerland in 2019 was 2.3% and, thus, lower than during the previous year.

Alongside the CHF 32.8 billion (€29.1 billion) generated by the Swiss banking sector in 2018, the indirect effects create an additional CHF 13.4 billion (€11.9 billion) of value added to other sectors, leading to a total of 6.9% share of Switzerland's gross value added.

In 2018, the financial sector paid CHF 17.6 billion (€15.6 billion) in direct and indirect taxes. Approximately 12% of all tax receipts can be attributed to the financial sector (11.5% in 2017).

In 2019, Swiss banks employed 106,084 people (FTE), of which 89,531 were employed in Switzerland. Most of them are employed at one of the four large banks (25%), followed by cantonal banks (20%). The proportion of women employed at Swiss banks stood at 39.8%.

# United Kingdom

Economic output for the UK in 2019 was 1.3%, unchanged from 2018 and remaining at the lowest annual rate since 2011. Constrained output was driven by lower business investment and a widening net trade deficit, but also lower household consumption, reflecting 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 1.3% at the end of 2019, well below the Bank of England's 2% monetary target. The official central bank interest rate rose to 0.75% during 2018 and remained at that level throughout 2019, alongside quantitative easing of €12 billion and €11.8 billion of corporate bond purchases. The value of GBP rose during 2019, with its effective exchange rate index 5% higher at the end of the year.

The unemployment rate continued to fall during 2019 to 3.8%, while employment hit a record high of 76.5%. At the end of 2019, the household saving ratio of gross saving to total disposable income was 5.8%, the highest annual rate for three years.

Consumer and business confidence measures weakened during 2019 amid continued uncertainty associated with the economic and trading impacts of the UK's proposed withdrawal from the EU. In 2019, 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 £30.5 billion worsened by £5 billion during the year.

Technology continued to facilitate innovation and invite new entrants into the UK banking and payments sector. Market developments 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.

Around 40 billion payments were made in the UK in 2019, 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 21% 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 card use is 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 more than halved, to 23% in the past decade.

Increasing consumer appetite for remote banking services is correlated with a consolidation of traditional bank branches, although through an arrangement with post offices, there were still some 20,000 physical locations where people could carry out banking transactions.

There are more than 360 monetary financial institutions (MFIs) in the UK. Just under half the sector balance sheet (49%) is held in GBP, 18% in EUR and 32% in other currencies. By country of ownership, 52% of the sector balance sheet reflects UK ownership, 15% reflects EU ownership and the remaining 33% reflects institutions owned in the rest of the world. Total balance sheet assets of €9.4 trillion represent the largest banking sector in the EU and the fourth largest worldwide. The regulatory capital ratio of the sector was

stable at 21.3% at end of 2019, with Core Equity Tier 1 capital of €507 billion slightly higher than a year earlier.

MFI credit in the UK slowed in 2019 - annual growth for private non-financial businesses reduced from 4.8% at end 2018 to 3.1%, while the household sector remained stable at 3.2%. Growth across the household sector was mixed, with annual secured lending growth unchanged at 3.4%, credit card lending slowing sharply, to 3.1% and other unsecured household credit (personal loans and overdrafts) growth at 2.9%. Households' deposits with MFIs grew by 3.9 per cent in 2019, an increase rate from 2.8% in the previous year and which, alongside reduced credit growth, indicated tighter household budgets. Deposits held by private non-financial businesses tightened noticeably from 5.4% in 2018 to 2.4% in 2019, as businesses experienced lower activity, cashflow and pressure on profits.

In cross-border financial services, the UK banking sector has historically generated a Balance of Payments trade surplus. In 2017 and 2018 (the latest available figures), the surplus was €31.8 billion, reflecting one quarter of the UK's total trade surplus in services. The 60% of the banking sector surplus is generated from trade with Europe, 27% with the Americas and 13% elsewhere.

The UK banking sector contributes 5.5% of UK tax revenues, a greater proportion than its 4% share of UK gross value added. The total tax contribution of the sector was some €46.7 billion. Having been equally split between UK-headquartered banks and foreign-headquartered banks in previous years, 2019 saw the balance tip towards UK-headquartered banks which accounted for 57% of the total. The tax contribution comprised €18.9 billion in employment and other taxes collected and €21.9 billion in corporation and other taxes borne. The sector employs more than 400,000 people – some 1.2% of the total UK workforce and 36% of the financial services sector.

# EBF Associate Members

## Albania

Economic growth for the year 2019 in Albania has slowed down to 2.9%. The lower growth relative to the trend growth of the previous years is due to lower growth in exports of goods and electricity production as well as due to slower pace of major energy projects with foreign financing. Economic growth this year has been supported by robust private consumption and faster growth of service exports. The positive contribution of service exports as a share of GDP has been increasing for several years, offsetting the shortfalls in some other sectors of the economy. Inflationary pressures have remained low following weak price growth of tradable goods and commodity prices at global levels.

The lower pace of economic growth has slowed down the process of fiscal consolidation while the current account balance and labour markets have further improved. A positive primary fiscal balance of 0.2% of GDP was about 0.4 percentage points lower than the previous year. On the upside, the lower primary surplus has allowed a greater contribution of fiscal policy on aggregate income. The improvement of current account is attributed to the positive trend in service exports while a further decline of the unemployment rate to an historic minimum of 11.4% follows the positive trend observed in labour markets since 2016.

The Albanian banking system underwent further consolidation during 2019, a process initiated in the earlier years of the decade. Of the 14 banks operating in Albania in 2018, a small foreign bank was absorbed by a domestically owned bank while another one had voluntarily liquidated. The number of banks operating in Albania at the end of 2019 fell to 12. Similarly, the number of bank branches is 429 or slightly fewer than the 447 branches present in 2018. Following these changes, the origin of bank capital has shifted towards domestic ownership. As of end 2019, four banks making up for around 29% of the banking system are domestically owned. Yet the banking activity has slightly expanded. At the end of 2019, total assets of the banking system were 1,475.6 billion Lek or about 1.5% higher than at the end of 2018. Partial euroization of the banking system's balance sheet and slight appreciation of the local currency in 2019, have had a negative effect on the growth rate of bank intermediation measured by assets. After accounting for the impact of the exchange rate, the total assets of the banking system expanded by around 2.2%. In terms of GDP and after taking into account the effect of appreciating local currency and the partial euroization, the banking system assets of 96.1% at the end of 2019 have not changed relative to 2018.

The consolidation of the banking system has not slowed down the financial activity of banks in 2019. While the statistical figures show a decline in credit to the private sector by the banking system, two main developments overshadow the extension of credit by the banking sector, write-offs and a slight exchange rate appreciation in 2019. Total credit extended to private sector has declined by around 0.6% on an annual basis, or around 3.3 billion Lek. As the local currency showed an appreciation of 1.3% at the end of 2019, the impact on the stock of credit to the private sector, around half of which is in foreign currency, wiped out an amount of outstanding credit approximate to that observed in the decline in absolute value. In the absence of exchange rate appreciation, the outstanding stock of credit would be flat. Furthermore, write-offs account for around 3% of the outstanding stock of credit. In the absence of this second development,

credit extended by the banking system to the private sector would account for around 3% annual growth of outstanding stock.

The financial soundness indicators of the Albanian banking system have improved all across the board. The capital adequacy ratio of 18.3% as of end 2019 is 0.4 percentage points higher than in 2018 and way above the minimum requirement of 12%. The ratio of liquid assets to short-term liabilities of 49.4% at the end of 2019 is 3.2 percentage points higher than in the previous year and more than twice as high as the regulatory minimum of 20%. Two profitability indicators, RoA at 1.4% and RoE at 13.4% as of 2019, are slightly higher than in 2018. The non-performing loans' ratio (to outstanding credit) declined by 2.7% compared to the year before reaching, 8.4% end 2019. The persistently strong capital adequacy and bank soundness indicators emit strong signals about the financial soundness of the banking system in terms of capitalization, liquidity and asset quality.

The non-bank financial institutions (NBFI) and savings institutions (SI) have expanded their activity in year 2019 in terms of the number of licensed subjects and their assets. With the licensing of two more NBFI and one more SI there are 32 NBFIs and 14 SIs operating in Albania as of end 2019. They have expanded their assets to 4.5% of GDP, a steady increase compared to 3.8% of GDP in 2018 and 3.2% of GDP in 2017. These non-bank financial institutions are becoming positive contributors of financial intermediation although currently at a small scale.

# 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 and receives 8 million tourists each year. The Andorran economy is focussed on services, being an important touristic centre for shopping and for winter sports activities.

In 2019, the Andorran economy grew close to 2% with a good progress in the different domestic production sectors, showing consistency, with a prominent touristic and construction sector and with the dynamism of the service sector.

The financial sector is a cornerstone of the Andorran economy due to its significant contribution to the country's GDP (together with the insurance sector, the financial sector accounts for approximately 20%, while employing 5% of the workforce), with its banking system at the core. It comprises five banking groups, eight financial investment firms, three asset management firms and 29 insurance companies, 15 of which are branches of foreign insurance companies authorized to do business in the Principality.

The banking sector has over 85 years' experience in the business with a presence in 11 countries and as of today comprises a total of five banks which together manage over €49 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 also have specialized subsidiaries of 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. Since 2014, Andorran banks have spent up to 120 million euros in promoting digital transformation mainly to adapt to changes in their customers' habits and to deal with the new challenges arising. The increase in the number of digital users in the country's five financial institutions has soared by 45.7% in the last five years. Also noteworthy is the spectacular growth experienced by users of mobile applications, with an increase of 356.8%. Among the banking transactions that can be carried out over the Internet, those that have grown the most over the last few years are money transfers and transactions in securities.

In the scope of payment services, Andorra transposed the payment services and electronic money directive in 2018 and in 2019 became a SEPA participant, as did the banks.

Over the last years, the Andorran banking industry has aligned itself with the unstoppable trend of sustainability. Its ultimate goal is to safeguard sustainability not only through corporate social responsibility, where banks have devoted up to 6% of their profits, but also through their management of saving and investments. The last major step taken to has brought about a major improvement in Andorran banks has been the launch of in-house investment funds managed exclusively by using Environmental, Social and Governance policies.

Despite the increasingly complex international environment and monetary policies, 2019 was a year of consolidation for the banking industry, in line with previous years. The Andorran banks ended the financial year having improved all their main indicators such as profit, volume of assets under management, global credit investment, return and solvency ratios.

Credit investment increased to €6,059 million, 2.5% more than in 2018, as did customer deposit standing at €10.2 million.

Managed resources reached a total of €49.7bn, a figure that has remained stable over the past three years, but which has almost doubled in the last decade.

Furthermore, the Andorran banking sector achieved a significant consolidated increase of 12.5% in its net attributable profit which amounted to €112 million.

One other important factor that points to the sustainability and reliability of the Andorran banking sector is its financial return (ROE), which stood at 7.70%, above the average of the European banks (5.8% according to data from the EBA).

The CET 1 (phase-in) solvency ratio was 17.48% on 31 December 2019, above the average of European banks (which was 14.8% according to ECB data on 31 December 2019).

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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 2019, there were 17 commercial banks operating in the Republic of Armenia. They had 545 branches in Armenia, of which 248 were based in Yerevan. The total number of employees in the Armenian commercial banking sector was about 12,614. 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 a 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 seven 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 organizations in Armenian banks are also significant. For example, EBRD has 17.76% shares in one bank and ADB has a 13.94% 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 2019, EBRD investments in Armenia reached \$1,541 million in 180 projects, of which 48% went through the Armenian banks. The investments of the Black Sea Trade and Development Bank make up \$336 million, 63.41% went through the Armenian banks. International Finance Corporation (IFC) and KFW investments totalled \$480 million and \$300,87 million respectively.

The return on assets (RoA) was 1.44% and the return on equity (RoE) was 9.73%. In the context of capitalization ratios, the capital adequacy ratio was 17% in 2019.

Armenian banks actively participate in the development of each sector of the economy. The transfer volume through the banking system is also impressive. In 2019, transfers only into Armenia were \$1,959 million, of which \$1,056 million came from Russia and \$281 million from the USA.

The major part (93.3%) of the total sum of the outstanding loans was provided to the residents of Armenia, of which 44.7% were companies (only 0.2% of this amount was provided to the state-owned companies), 41.1% to households, and only a small part to non-profit organizations and other financial organizations.

Loans to consumer, industry and the trade sector traditionally account for the major part of the total loans of the banks: 27.6%, 13.8% and 17.4%, respectively, in 2019. The biggest growth in lending was in mortgage (compared to 31 December 2018, the volume of loans grew by 39.5%).

As of December 31, 2019, total Loans/GDP is 57.1% and total deposits/GDP make up 53.4%.

The ongoing globalization 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.

# Azerbaijan

In 2019, Azerbaijan's GDP increased by 2.2% to €42.9 billion. GDP per capita was €4,333 (increased by 1.8% compared to 2018). Annual inflation was 2.6% and within the framework forecast by the Central Bank (4±2%). In 2019, the state budget received € 12,713.2 million (7.5% more than in 2018), the budget spent €12,821 million (7.4% more than in 2018), the budget deficit was equal to €107.8 million.

In January-December 2019, the average exchange rate of the national currency against one US dollar was 1.70 manat and €1 was 1.90 manat.

In 2019, 30 banks were operating in Azerbaijan. Two of them were state-owned banks and the rest were private banks. The number of banks with foreign capital in the country is 14. In seven of them, the share of foreign capital is more than 50% (two banks operate as local branches of foreign banks).

The number of non-bank credit organizations was 90, of which 45 have the status of credit unions.

The policy pursued to increase the volume of non-cash payments in the country has been intensified in recent years thanks to the role of the "State Program on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020" which has been developed for implementation of the measures envisaged, for expansion of digital payments, in the "Strategic Roadmap on Development of Telecommunication and Information Technologies in the Republic of Azerbaijan" approved by the Decree dated December 6, 2016, of the President of the Republic of Azerbaijan. The Program is strategically aiming to significantly expand the cashless payments in the economy and thereby to minimize the volume of cash payments, to strengthen the base of financial resources of the banking sector, and to reduce transactional costs associated with cash circulation.

As a result of the implementation of the measures arising from the Strategic Road Map and the Program, by the end of 2019, 43% of card transactions in terms of number and 19% in terms of amount were directed to non-cash payments, in 2010 these figures were 3% and 2%. At the same time, there was a rapid increase in the number of bank cards in the country. During 2019, the volume of plastic cards increased by 11.6% to 7.27 million. The number of POS-terminals in the country was 67.5 thousand, and the number of ATMs was 2647. Also, 29 banks provided internet banking services and 24 banks provided mobile banking services during the reporting period.

By the end of 2019, the number of bank branches was 509, and the number of branches was 133. The number of employees in the banking sector is 19,500. During that term, NBFCs had 228 branches and 2,100 employees.

In 2019, the total credit investment in the economy by banks and non-bank credit organizations increased by 20.2% over the year and reached €8036.9 million. At the same time, the volume of non-performing loans decreased by 17.9% and fell to €668.8 million. As a result, the NPL ratio decreased by 3.9 percentage points to 8.3%.

The share of banks in total lending was 97.4% (€7,828.2 million), and the share of non-bank credit organizations was 2.6% (€208.7 million). The loan portfolio of non-bank credit organizations also increased, although not in double-digits (3.6%) as in banks.

During 2019, the total deposit portfolio in the country increased by 15.7% to €13,000.3 million. €5,073.6 million of the portfolio was in national currency and €7,926.7 million in foreign currency, which increased by 30.3% and 8%, respectively. At the end of the reporting period, the dollarization ratio of the portfolio was 61%, which means a decrease of 4.3 percentage points during the year. The de-dollarization process has also been observed in household savings. The dollarization coefficient of €4,537.9 million in household deposits in banks decreased by 10.3 percentage points compared to 2018 to 52.2%. The change in the volume of this portfolio was + 5.5%.

The increase was also observed in the deposits of financial and non-financial institutions. Thus, the funds of financial institutions in the bank increased by 14.1% to €907.1 million, while deposits of non-financial organizations increased by 23.1% to €7,555.3 million.

Business loans accounted for €4,744.9 million, or 60.6% of total bank loans. During the year, the volume of business loans increased by €577.6 million or 13.9% compared to 2018. One of the steps to boost this growth has been to take steps to encourage banks to take out business loans in a variety of ways (in the next chapter), including some easing of business loans in prudential terms. This is because the growth of business loans has accelerated by the end of the year.

At the end of 2019, the assets of banks amounted to €1,7190.9 million, which is equal to 64.9% of non-oil GDP. During the year, the volume of this indicator also changed in a positive direction: an increase of 13.4%. At the same time, the share of total loans in assets reached 45.5%.

The total capital of banks increased by 15.1% in the period to €2,407.7 million and reached 9.1% of non-oil GDP. The most significant change was in the profits of banks. Thus, although the sector's profit in 2018 was €143.5 million, the next year this figure almost doubled (96.5%) to €282.1 million.

In 2019 as other quality indicators showed a positive tendency: the ratio of net profit to assets was equal to 1.6% (in 2018: 0.9%) and the ratio of net profit to total equity was 11.7% (in 2018: 6.9%).

Positive changes are observed in both quantitative and qualitative indicators of banks. The main reasons for these positive trends were strengthening economic stability, falling inflation, declining volatility of exchange rate, and, consequently, rising business activity and household incomes.

Special decisions by the state also played an important role in accelerating economic activity, one of which is related to the Decree of the President of the Republic of Azerbaijan dated February 28, 2019: "On additional measures to address problem loans of individuals in the Republic of Azerbaijan". At the same time, major tax reforms were implemented that year. As part of the reforms, individuals who did not work in the oil and gas sector and were employed by taxpayers belonging to the private sector were exempted from income tax for seven years (Note: income tax was 14%). The decision aimed to support the development of entrepreneurship, increase economic transparency and activity, and expand the tax base.

These steps, combined with the multiplier effect created by the increase in budget expenditures and the effects of reforms in the country in recent years, have contributed to the strengthening of the banking sector, as well as increasing business activity and income in 2019.

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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) - the national currency is 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 = 1,95583 KM).

Bosnia and Herzegovina's Nominal GDP Per Capita is forecasted to be €5,064 in December 2019 as reported by the International Monetary Fund Report. Looking ahead, Bosnia and Herzegovina's Nominal GDP Per Capita is projected to stand at €5,522 in December 2023.

The BiH financial system is dominated by commercial banks. Currently 23 banks operate on the market.

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

In 2019, the banking sector continued its growth as well being a generator of business for the BiH economy.

Despite great competition, decreased interest rates and modest credit growth, the results of the sector's operations show a profitability that has not been recorded in recent history until now. All banks achieved the best results in history.

As of December 2019, net profit of banks amounted to €185,5 million that is 12% higher compared to the previous year.

Total assets of the banking sector, as of December 2019 amounted to €18 billion, and grew by 7,8% compared to 2018.

Credit growth in the same period was 6,6% higher compared to 2018, while the total value of loans reached the level of €10,8 billion. Legal entities (€5,4 billion) grew by 5,4% and loans to individuals (€5 billion) by 7.9%

Deposits grew by 9,5% compared to 2018 and reached the level of €13,2 billion. Deposits of legal entities had much higher growth (10,16%) than deposits by individuals (9%).

Loans to legal entities amounted to €5,4 billion (51,6% of share), while loans to individuals amounted to €5 billion (48.4% of share).

The increase in deposits and loans enabled the increase of economic activity throughout the country.

# 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. Monaco's continued attraction as a financial centre is not surprising in light of its wide range of exceptional advantages that include:

- high quality infrastructure and dedicated professionalism;
- a diversified economic base ;
- 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 (see section below on "Confidentiality and the Drive Against Money Laundering").

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.

The AMAF is an associate member of the European Banking Federation, the united voice of banks established in the European Union and European Free Trade Area.

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# Montenegro

Montenegro is a country on the Balkan Peninsula, with a population of 620,000. It gained its independence in 2006, but has been applying the "euroization" system since 2002, i.e. it uses the euro as its legal tender. The country is a candidate for membership to the European Union and has opened all negotiating chapters.

Montenegro has achieved significant GDP growth in the past few years, and in 2019, gross domestic product amounted to €4.9 billion and grew by 3.1%. Observed per-capita, in 2019, the growth ranged from \$6,900 to \$7,743 and further growth was expected. According to purchasing power standard, it rose from 44% to 47% of the EU average.

The financial system is bank-dominated consisting of 13 commercial banks and five micro-credit financial institutions. The banking system is stable, liquid and solvent having a low level of NPLs of 3.8% which are in constant decline. Liquid assets are at about 20% of total assets and solvency at the system level was at 17.8%. Total assets amounted to €4,603 billion, loans were €2,942 billion, and they grew by 4.5%, while deposits amounted to €3,485 billion. New loans showed year-on-year 8.15%. Interest rates on loans showed a constant mild downtrend.

The banking system is well-capitalised and it amounts to about €600 million. A record profit growth of €50.6 million was achieved, which was twice as much as last year.

# Republic of North Macedonia

In 2019, the growth of the economy in the Republic of North Macedonia accelerated and reached 3.6%, compared to 2.7% the previous year. In terms of sources of growth, apart from private consumption, the recovery of investment activity, both public and private, was an important growth driver.

The Central Bank continued relaxing the monetary policy, decreasing further the key interest rate to 2.25%, still providing for the pursuing of the de facto fixed exchange rate of the Macedonian denar, pegged to the euro. The inflation remained low (0.8%, compared to 1.5% in 2018). The trend in the labour market in 2019 remained favourable, with a further reduction of the unemployment rate to the historically lowest level of 17.3%.

At the end of 2019, in the Republic of North Macedonia, there were 17 deposit taking institutions i.e. fifteen banks and two savings houses. The number of banks owned by foreign shareholders was 11. Within that, at the end of 2019, six of those banks were part of the foreign banking groups. The banks in dominantly foreign ownership in 2019 still have the largest share in most of the activities: in lending 80.3%, in total revenues 76.7% and in total profit 70.8%. By country of origin, highest participation in total capital and reserves has shareholders from Greece -19.7%, Slovenia- 14.5%, Turkey-12.1% and Austria- 10.7%.

The banking network is spread throughout the whole territory of the country and consists of 420 business units. The number of persons employed in the banking system at the end of 2019 was 5932 and has not changed compared to the end of 2018.

Banks' lending activity in 2019 has increased by 6.0%. Loans granted to the household sector remained the main driver of growth. The annual growth of loans to households stems from the growth of consumer loans and housing loans, which also experienced a moderate acceleration.

In 2019, total deposits in the financial sector experienced a solid growth of 9.0%, which was slightly lower compared to the previous year. Growth mainly came from deposits of households which was 7.9%, complemented by corporate deposits growth of 14.6%. From the currency aspect, over three quarters of the total deposit growth came from the Macedonian denar deposits, with a smaller contribution from foreign currency deposits. The level of euroization, measured by the share of foreign currency deposits in the total deposits in 2019 moderately decreased to 38.5% (40% in the previous year).

The total number of payments made in 2019 registered an annual growth of 11.7%. For the first time credit transfers and payment cards were equally used, as a result of stronger growth in the use of payment cards.

Regarding credit transfers, the electronic credit transfers were growing faster at a rate of 6.2% compared to paper-based credit transfers which increased by 4.4%.

The payment statistics data showed further intensive growth of the use of payment cards in trade which in 2019 reached 20.7%, annually. At the same time, the number of POS transactions has increased by 20.4%, with an even faster growth of 29% of online card payments on an annual basis. The percentage of the population in the country that makes online purchases has been constantly increasing, reaching 29% last year.

As in the previous years, in 2019, the banking system maintained its stability. The banks with their prudent policies and the National Bank, through the constant improvement of the standards in accordance with the European regulations, enabled the maintenance of high and stable liquidity and solvency.

At the end of 2019, the average capital adequacy ratio of banks was 16.3%.

Within the overall risk profile of banks, credit risk remained dominant, but the exposure to this risk showed a decrease in 2019. As of 1 July, 2019, a new regulation on the methodology for credit risk management was introduced thus achieving harmonisation of the domestic regulations with the requirements of the IFRS 9 and European Forbearance standards.

The rate of non-performing exposure dropped to 4.8%, meaning that 95.2% of bank loans were regular in accordance with the NPE and forbearance standards.

Net interest income, with a share of 64.6%, remained the most significant in the structure of the total income of the banks. The domestic banking system in 2019 continued with profitable operations, but with slightly lower profits and consequently lower indicators of return on equity and assets, compared to 2018. At the end of 2019, these rates of return were 11.7% and 1.3%, respectively. The narrowing banks' net interest margin fourth year in a row contributed to the lowering of profitability.

The level of penetration of total loans in the GDP was unchanged compared to the previous year: 48.9%.

In general, the banking system is sound, stable and profitable.

Good conditions, strong liquidity and capital positions of domestic banks indicate sufficient potential to absorb potential losses, and also to provide credit support to households and the corporate sector.

# Serbia

Serbia's GDP rose 4.2% in 2019, largely driven by a strong increase in fixed investments, notably in transport and energy infrastructure, as well as investments in machines and equipment. Preserved macroeconomic stability was conducive to a further rise in investor confidence and their appetite for longer-term investments in Serbia, as attested by the record-high inflow of foreign direct investment, the country risk premium falling to the lowest level on record, and a credit rating upgrade to a notch away from the investment grade. The country's external position has been strengthened, and for five consecutive years the current account deficit has been fully covered by foreign direct investment, which measured €3.6 billion in 2019, up by 13.5% from 2018. The achieved price and financial stability, as well as ordered public finances, were confirmed by Moody's improving Serbia's credit rating outlook from "stable" to "positive", and Fitch and Standard & Poor's improving the rating from BB to BB+.

For seven years in a row inflation remained low and stable, and in December 2019, it measured 1.9% year-on-year. During 2019 the National Bank continued to pursue a cautious monetary policy, and trimmed its key policy rate three times, in July, August and November, each time by 0.25 percentage points, to 2.25%.

In 2019, responsible fiscal policy was fully coordinated with monetary policy. Consistent monetary policy and full coordination with the fiscal policy brought significant contribution to the achievement of good economic results, thus strengthening the foundations for future sustainable growth. In 2019, the IMF Executive Board adopted a decision on the successful second and third review of Serbia's economic performance, supported by the Policy Coordination Instrument, which is advisory and does not envisage the use of funds. Central government debt in GDP equalled 52.0% at end-2019, down by 1.7 percentage points from end-2018.

Serbia's banking sector, making up over 90% of financial sector assets, was stable in 2019 owing to adequate capitalisation, high liquidity and profitability. Throughout the year, banking sector adequacy and liquidity ratios were significantly above the prescribed thresholds. At year-end, banking sector profitability resulted in the ROA of 1.8% (2.12% at end-2018) and ROE of 9.8% (11.27% at end-2018). The banking sector's net profit, before tax, in 2019 equalled RSD 67.7 billion, down by 10.6% compared to the result achieved at the end of 2018.

At end-2019, the share of NPLs in total banking sector loans stood at 4.1%, the then lowest level on record. The NPL share dropped by 18.3 percentage points compared to July 2015, i.e. the period before the adoption of the NPL Resolution Strategy.

The fall in gross NPLs by 9.7% in Q4-2019, along with a rise in total loans by 3.0%, pushed the share of NPLs in total gross loans further down by 0.58 percentage points quarter-on-quarter, to 4.09%, which is their new historic low since the introduction of the uniform definition of a non-performing loan and mandatory reporting in 2008. At end-Q4 2019, gross corporate NPLs equalled RSD 37.1 billion, down by RSD 4.4 billion or 10.6% quarter-on-quarter, mainly due to: collection (RSD 3.4 billion), write-offs (RSD 1.1 billion), and assignment (RSD 1.1 billion). By sector, the biggest share in total corporate NPLs continued to be held by manufacturing (40.6%, with a 4.4% gross NPL ratio), followed by trade (17.4%, with a 1.9% gross NPL ratio), construction (12.0%, with a 3.8% gross NPL ratio) and real estate business (16.6%, with a 5.4% gross NPL ratio). The highest gross NPL ratio in the natural persons' segment at end-December 2019 (7.8%) was recorded in the category of current account overdrafts (which accounted for 2.0% of total loans to natural

persons and 3.9% of total NPLs of natural persons). The next were credit cards, with the ratio of 5.5% (making up 3.0% of total loans to natural persons and 4.2% of NPLs of natural persons), consumer loans with 4.7%, cash loans with 4.2% and housing loans with 3.1%.

Serbia's banking sector has been characterised by considerable excess liquidity for a long time now. At end-Q4 2019, the average monthly liquidity ratio was 2.18, twice higher than the regulatory floor of 1.0. The narrow liquidity ratio at banking sector level measured 1.84 (regulatory floor – 0.7). The share of liquid assets in the total banking sector's balance sheet assets is stable, reaching 37.3% at end-Q4 2019.

To strengthen the resilience of the banking sector further, the liquidity coverage ratio was introduced. As of 1 January 2018, banks are required to maintain this ratio at a level not lower than 100% (prescribed floors are the same as in the European Union). As of 31 December 2019, the liquidity coverage ratio at the banking sector level measured 199.3%.

# Turkey

Economic activities had a stagnant course in the first half of 2019. As of the end of the first half of 2019, real GDP declined on an annual basis. However, economic recovery started with the second half due mainly to the measures taken to support employment and the growth in loans. With the recovery in the second half, Turkish economy grew by 0.9% in 2019. The Consumer Prices Index (cpi) and producer price index (Ppi) increased by 11.8% and 7.4%, respectively. The ratio of current account surplus to GDP was 1.1%. There was a net capital outflow due to reduced portfolio investments but net international reserves increased in 2019.

The number of banks operating in the banking sector was 53 as of December 2019. Of these 34 were deposit banks, and 13 were development and investment banks. Of the deposit banks, three were state-owned banks, and nine were private banks. There were six participation banks in Turkey.

The share of deposit banks in total assets was 87%, while the shares of development and investment banks and participation banks were 7% percent and 6%, respectively.

The number of employees remained almost the same as the end of the previous year, with 205,000 people in 2019. The number of branches declined by 198 to 11,576. In 2019, the number of employees per 100,000 people decreased by 7 to 227, while the number of branches decreased by 0.5 to 12.3.

As of December 2019, the share of the five largest banks in total assets was 57%. According to the loan and deposit volume, the share of the five largest banks in total increased to 62% and 58%, respectively.

Total assets reached USD 756 billion as of 2019. The ratio of total assets to GDP was 105%. Loans and securities had, shares of 59% and 15% in total assets, respectively.

The loan volume of the banking sector reached USD 447 billion and the ratio of loans to GDP was 62%. Of total loans, 53% was extended to large scale companies and project financing, 24% to SMEs, and 23% to consumers.

Loan-to-deposit ratio decreased by 14 percentage points to 104% compared to the previous year. This ratio was 130% in TL loans and deposits, and 78% in Foreign Exchange (FX) loans and deposits as of December 2019.

The ratio of non-performing loans before specific provisions to total loans was at 5.3%. This ratio was 5.8% in corporate loans and 3.8% in consumer loans.

Of assets, 57% was financed by deposits, while 22%, by non-deposit funds. The ratio of shareholders' equity to total assets was 11%.

Total deposits grew by 26% in nominal terms and 22% in fixed exchange rates to USD 432 billion. The share of TL deposits in total deposits decreased by 2 percentage points to 49%.

Shareholders' equity increased to USD 83 billion. Capital adequacy was at a high level in both core and legal capital. Capital adequacy ratio was 18.4%. The core capital adequacy ratio (Tier-1) remained at a high level and was 14.2%.

Interest income and interest expenditures increased by 14% and 16% respectively in 2019. Net interest income increased by 11%.

The ratio of interest margin to average assets continued to decline, to become 2.5% in 2019. Net profit decreased by 17% to USD 8.4 billion. In 2019, average return on equity was 11%. Average return on assets decreased by 200 basis points to 1.2% level compared to the previous year.

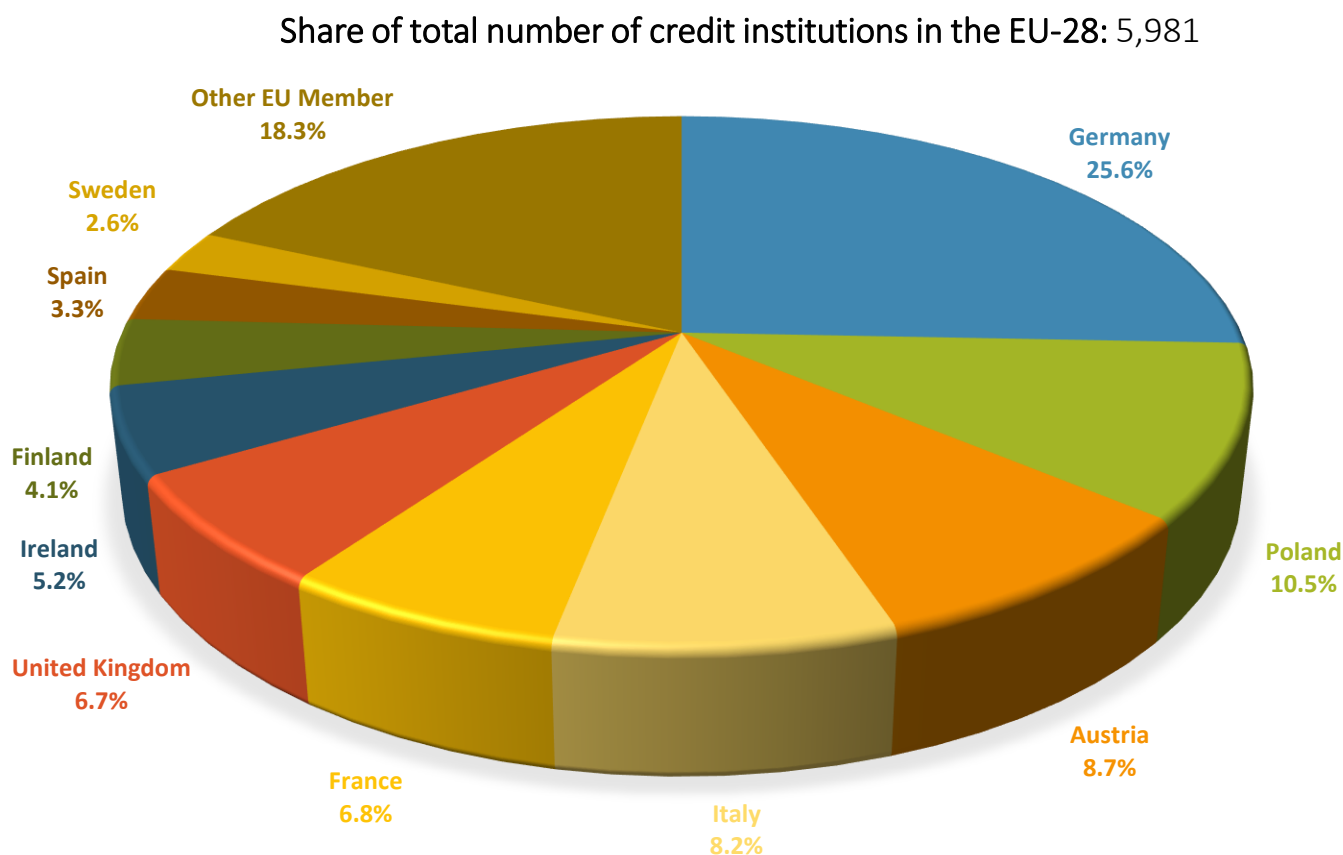
As of December 2019, debit card and credit card transaction volume was USD 336 billion, and its ratio to GDP was 46%. The number of active customers using digital banking transactions reached 51 million; 96% of the customers were individual, and 4% were corporate. In 2019, the volume of online banking transactions increased by 19%, while mobile banking volume increased by 31%.

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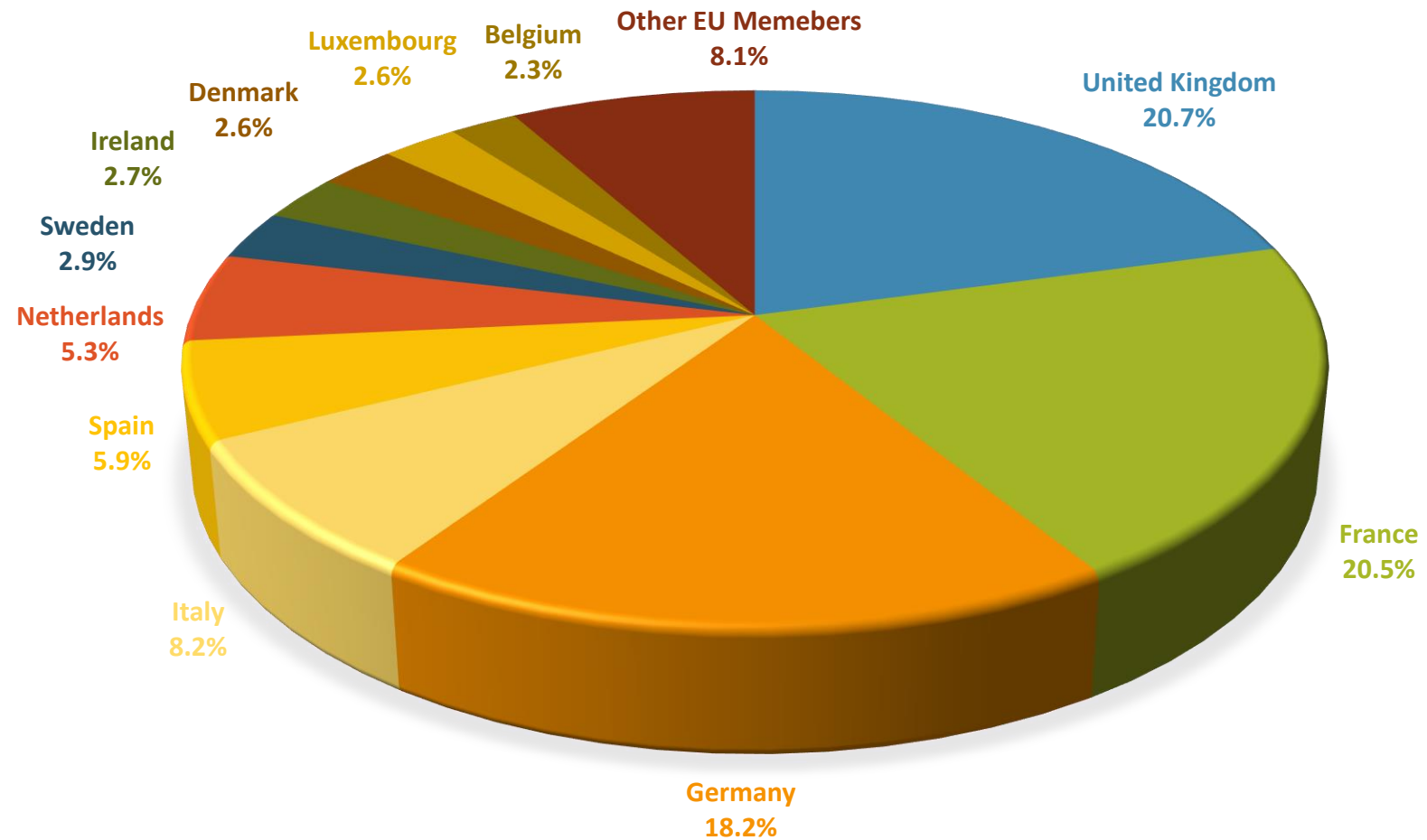
# STATISTICAL ANNEX

Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU 28 data. The EU 28 data contained in the statistical annex has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The data relevant for EFTA countries and EBF Associate Members has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

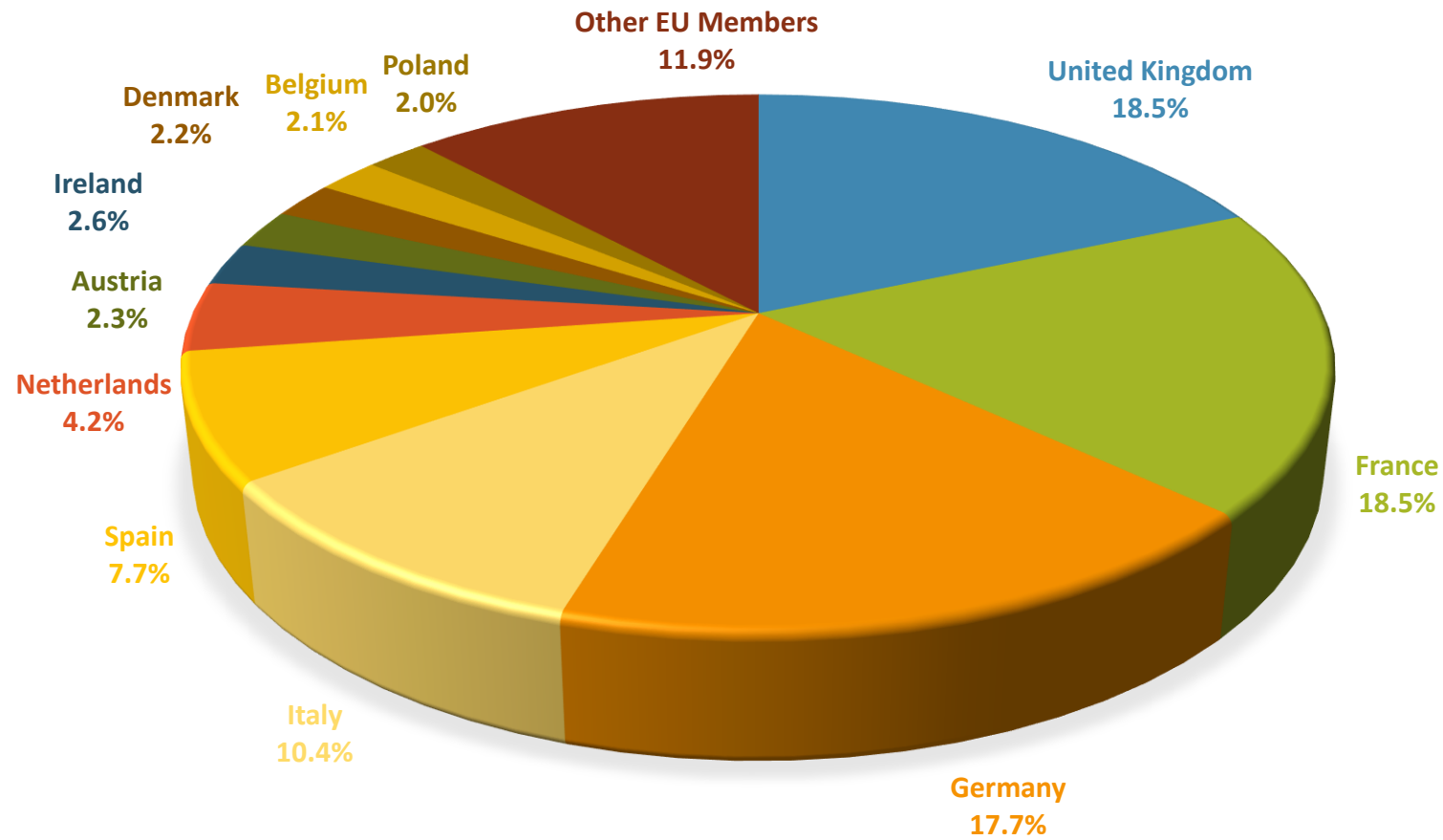
All figures as at 31 December 2019



Share of total assets held by banks in the EU-28: €45,550,305



Share of total capital and reserves in the EU-28 banking sector: €3,498,052



## Country-by-country statistics – Euro area Member States

All figures as at 31 December 2019

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Austria	521	872,170	588,043	558,715	81,411	71,479
Belgium	85	1,029,819	631,555	696,751	74,032	50,335
Cyprus	29	65,678	44,018	42,841	11,636	8,554
Germany	1,533	8,310,990	5,169,025	5,022,353	619,325	578,596
Estonia	40	28,786	26,004	20,147	4,631	5,425
Spain	197	2,676,897	1,617,161	1,863,044	268,264	173,447
Finland	243	652,258	407,230	243,752	52,931	20,922
France	407	9,321,264	5,696,791	5,060,763	647,319	399,374
Greece	35	309,668	170,873	211,522	57,546	36,727
Ireland	314	1,252,041	374,576	339,042	89,778	27,692
Italy	490	3,724,114	2,363,556	2,698,095	363,539	280,219
Lithuania	84	32,189	28,663	26,592	3,233	10,334
Luxembourg	127	1,163,107	497,033	490,813	62,791	26,334
Latvia	54	22,719	18,145	16,453	3,222	6,915
Malta	25	41,411	19,852	23,731	4,441	5,175
Netherlands	94	2,414,926	1,392,417	1,231,861	145,774	70,000
Portugal	149	388,465	245,292	287,704	49,991	51,060
Slovenia	17	42,666	29,921	33,609	5,041	9,553
Slovakia	27	86,509	65,645	63,927	10,683	19,393
<b>Eurozone</b>	<b>4,471</b>	<b>32,435,677</b>	<b>19,385,800</b>	<b>18,931,715</b>	<b>2,555,588</b>	<b>1,851,534</b>

## 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	25	61,557	40,280	45,528	9,406	28,238
Croatia	24	60,663	45,458	44,636	10,616	19,563
Czech Republic	58	300,382	220,978	178,865	30,906	39,738
Denmark	98	1,190,218	721,048	363,887	76,302	41,432
Hungary	46	133,285	72,285	87,603	14,458	39,659
Poland	629	491,682	339,058	343,567	71,210	160,878
Romania	75	111,604	68,226	81,032	16,059	53,106
Sweden	155	1,330,719	866,597	539,088	68,000	44,499
United Kingdom	400	9,434,518	4,378,893	4,086,804	645,507	344,076
<b>Non Eurozone</b>	<b>1,510</b>	<b>13,114,628</b>	<b>6,752,823</b>	<b>5,771,010</b>	<b>942,464</b>	<b>771,189</b>
<b>EU-28</b>	<b>5,981</b>	<b>45,550,305</b>	<b>26,138,623</b>	<b>24,702,725</b>	<b>3,498,052</b>	<b>2,622,723</b>

## Country-by-country statistics – EFTA Member States

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Iceland	10	37,745	32,016	20,159	6,276	2,834
Liechtenstein	14	66,480	29,270	41,330	5,930	2,203
Norway	136	645,491	535,898	283,764	41,000	24,357
Switzerland	246	3,055,480	1,550,830	1,971,840	213,340	89,531
<b>EFTA</b>	<b>406</b>	<b>3,805,196</b>	<b>2,148,014</b>	<b>2,317,093</b>	<b>266,546</b>	<b>118,925</b>

## Country-by-country statistics – EBF Associate Members

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Capital and reserves (€ million)	Staff
Albania	12	12,120	4,710	96,820	14,647	6,366
Andorra	5	14,840	6,094	10,208	1,515	1,359
Armenia	17	10,240	6,600	6,170	1,660	12,537
Azerbaijan	30	17,190	7,830	16,284	2,410	19,460
Bosnia and Herzegovina	23	17,067	10,817	13,196	2,233	9,659
Republic of North Macedonia	15	8,940	5,520	6,590	980	5,932
Monaco	30	132,900	25,690	50,800	/	3,068
Montenegro	13	4,600	3,060	3,480	600	2,344
Serbia	26	34,600	20,820	25,110	5,870	23,087
Turkey	51	674,218	398,794	385,298	73,908	207,715
<b>Associates</b>	<b>222</b>	<b>926,715</b>	<b>491,755</b>	<b>613,956</b>	<b>103,823</b>	<b>299,401</b>

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.*