



Banking in Europe:

EBF Facts & Figures 2022

- 2021 banking statistics -

The data contained in this publication has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The cut off date is 31st December 2021.

Unless otherwise noted, all graphs and tables have been produced to illustrate EU-27 data mentioned in the relevant chapters.

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

Country pages presented in the country-by-country overview have been produced by each national banking association 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.

All figures from years prior 2021 have been adjusted for a matter of consistency and for better year-over-year EU-27 comparison by removing the figures from the United Kingdom. Figures presented in the charts throughout this document may not sum due to rounding.

Author: Francisco Saravia f.saravia@ebf.eu

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Chapter 1

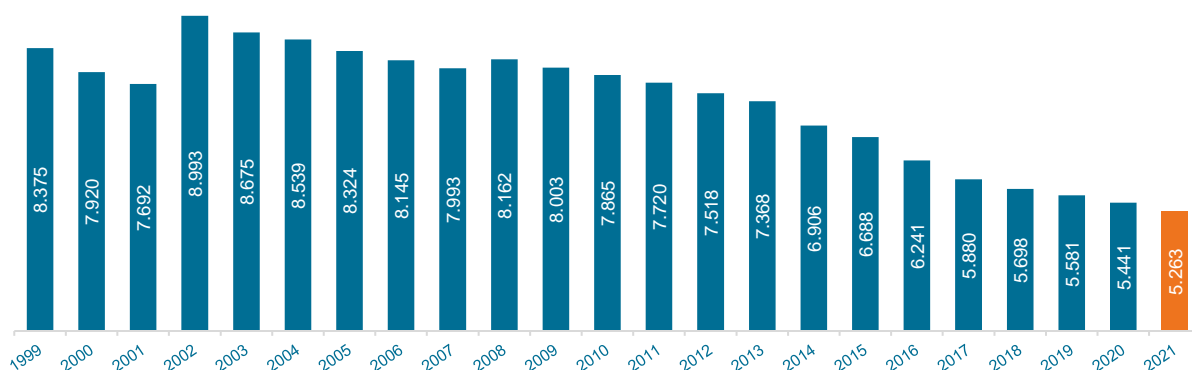
Structure of the banking sector

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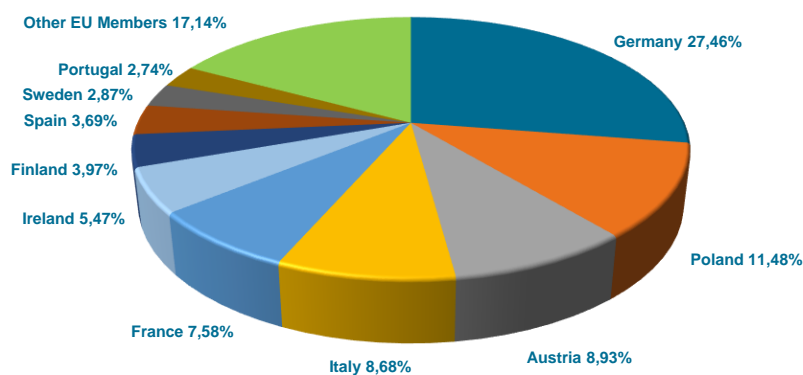
Number of credit institutions

The downward trend in the number of EU-27 credit institutions, which started in 2009, continued with the number falling to 5,263 in 2021 (-178 units). This marked a decline of 3.3% compared to the previous year and a reduction of 2,899 units (-35%), in total, since contraction started.

Total number of credit institutions in the EU

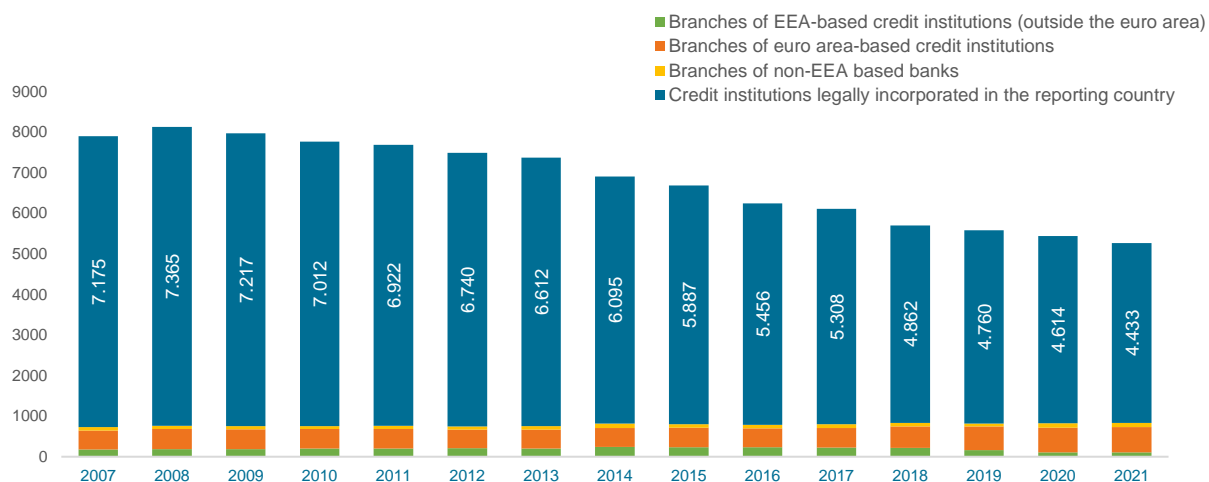


Share by country of total number of credit institutions in the EU



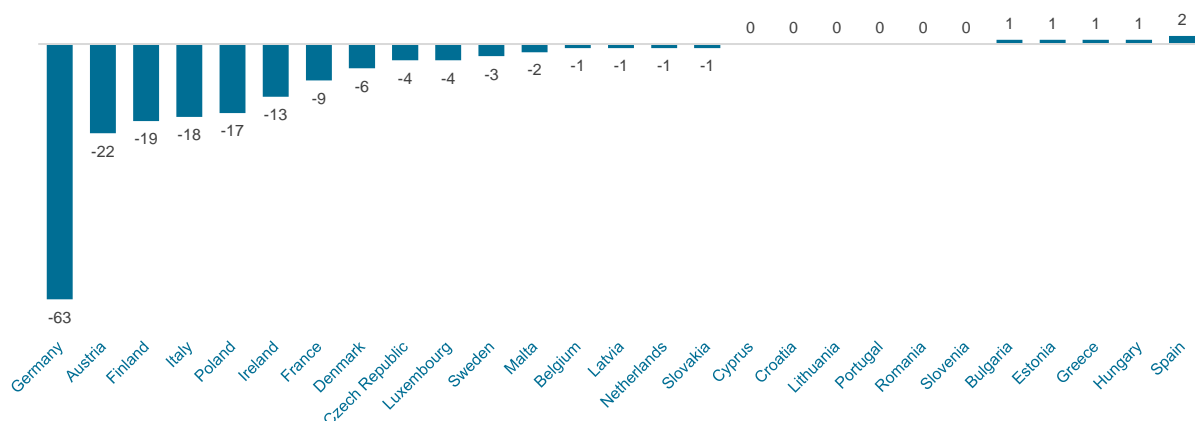
The consolidation among credit institutions legally incorporated into the reporting country continued taking place where the stock has fallen by almost 40% since 2008.

Breakdown of credit institutions in the EU



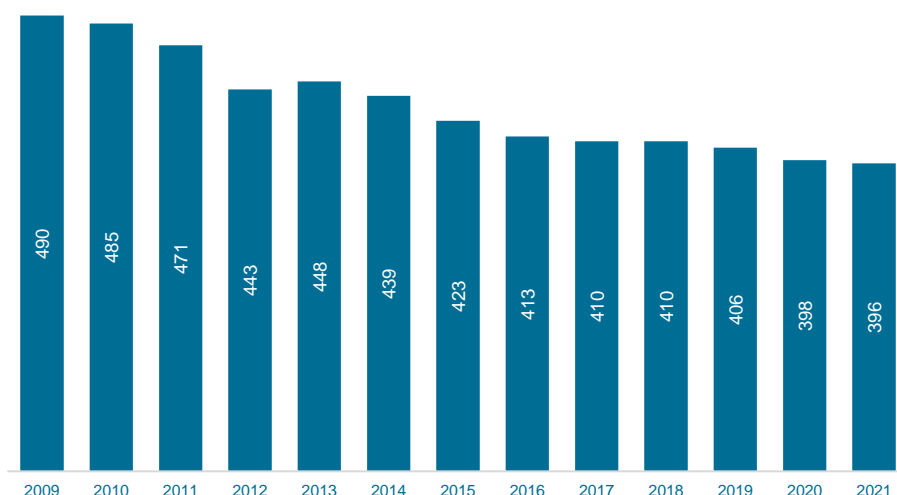
The countries that experienced the largest contraction in absolute terms in 2021 were Germany (-63) and Austria (-22) that continue to lead this for third year in a row, followed by Finland (-19), Italy (-18) and Poland (-17). Spain (+2), Luxembourg (+1), Greece (+1), Estonia (+1) and Slovenia (+1) were the only countries where the number of credit institutions increased in 2021.

Change in number of credit institutions from previous year (2020 vs 2021)

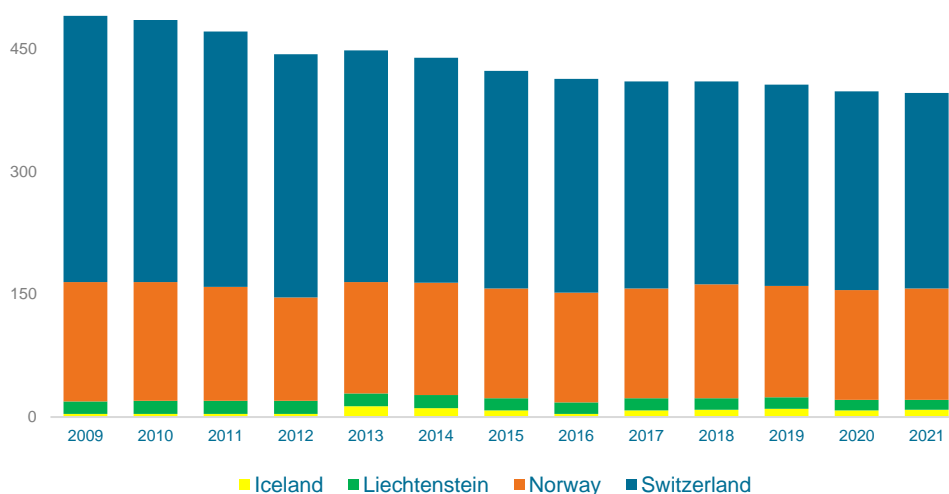


The number of credit institutions in the EFTA countries was 396 in 2021, slightly down from 398 in 2020, reaching a new lowest level. While the stock has fallen since 2009, the same as in the EU-27, the EFTA continued experiencing a much lower pace with a decline of 19% compared to 35% in the EU-27.

Credit institutions in EFTA countries



Breakdown of credit institutions in the EFTA countries



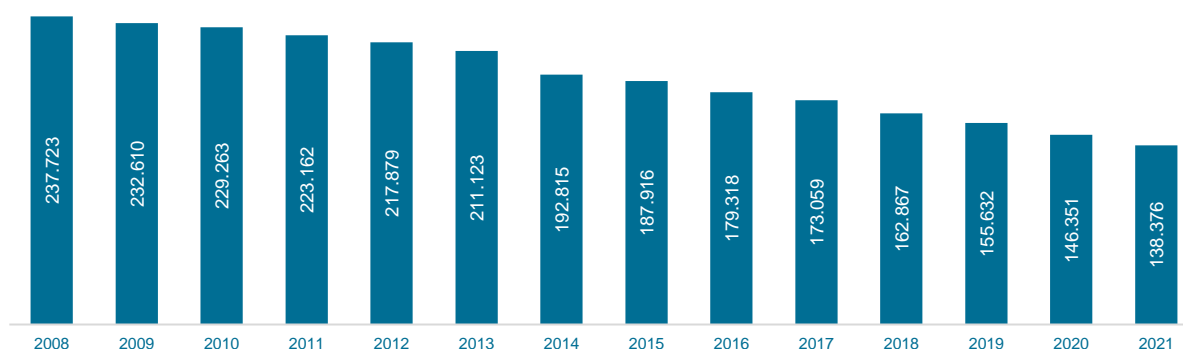
Branches and subsidiaries

The rationalisation taking place in the EU banking sector continued to involve bank branches as the number of branches continued to shrink, falling to 139,160 by the end of 2021. Compared to the previous year, the total number of branches in the EU-27 decreased by about 5.5%, or 8,000 branches. The number of branches has fallen by about 3.5% since 2008 or 86,000. Spain (-3,145), Germany (-2,418) and Italy (1,830) were the countries with the largest contraction.

The number of domestic branches, the main category of branch, experienced in 2021 a contraction of about 5.5%, albeit at a lower pace than the previous years, reaching 138,376.

In absolute terms, Spain (-3,149), Germany (-2,410) and Italy (-1,831) experienced the largest drops in domestic branches. Only nine countries added domestic branches in 2021 with Austria (+313), France (+222), Bulgaria (+212) and Ireland (+180) adding more than 100 each.

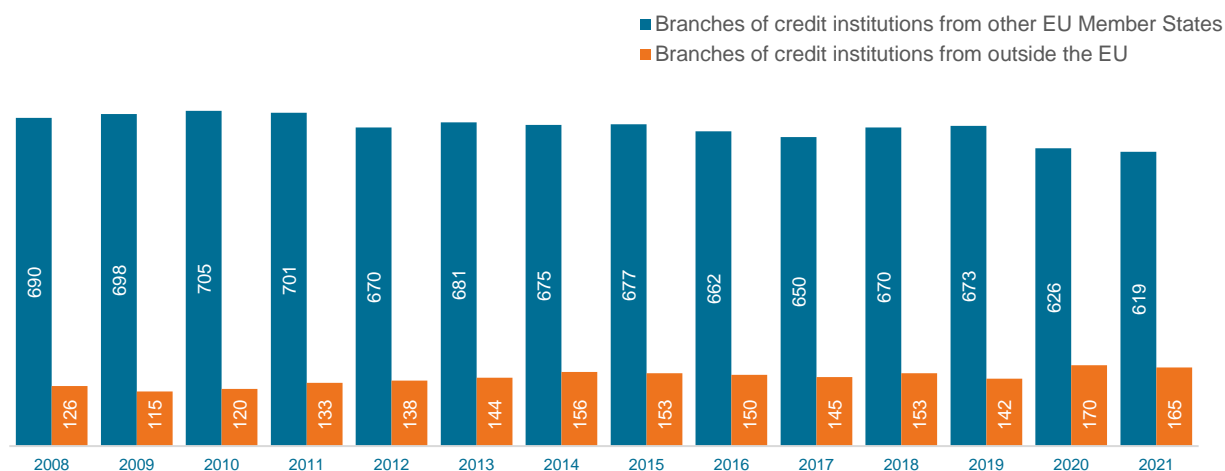
Number of domestic branches in the EU



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 784 foreign bank branches in the EU in 2021, of which 619 were from other EU Member States and 165 from from third countries. The latter contracted (-5) after a experiencing a sharp increased (+28) a year before.

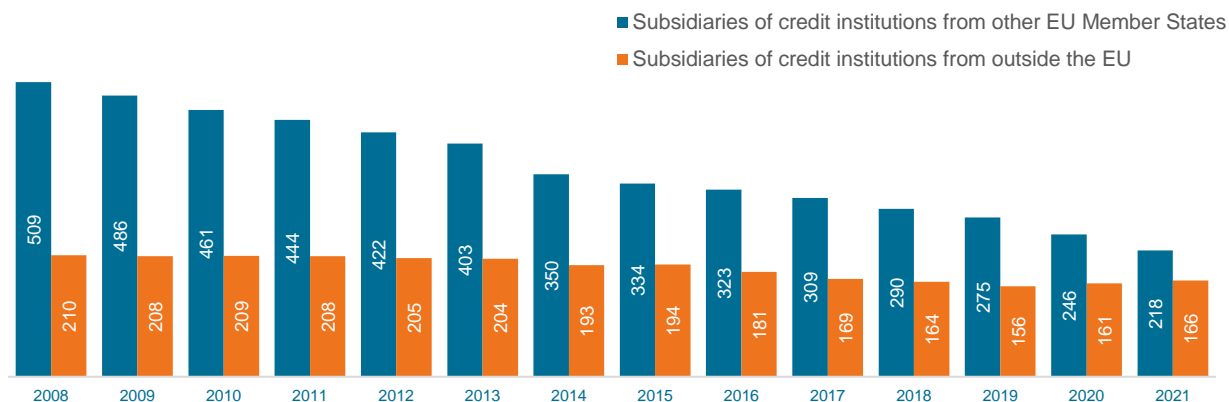
Spain continues to be the country with the highest number of foreign branches from other EU Member States, having 77 branches, followed by France (60) and Germany (51). Germany is also the country with the highest number of branches (43) of credit institutions from outside the EU followed by Italy (30) and Belgium (20).

Credit institution branches in the EU



The overall number of subsidiaries continued declining in 2021 falling by 5,7% to 384, the lowest level since 1997. The number of subsidiaries of credit institutions from other EU countries fell by 28 in 2021. The number of non-EU credit institutions' subsidiaries experienced for second consecutive year a slight increased to 166, up from 161 in 2020.

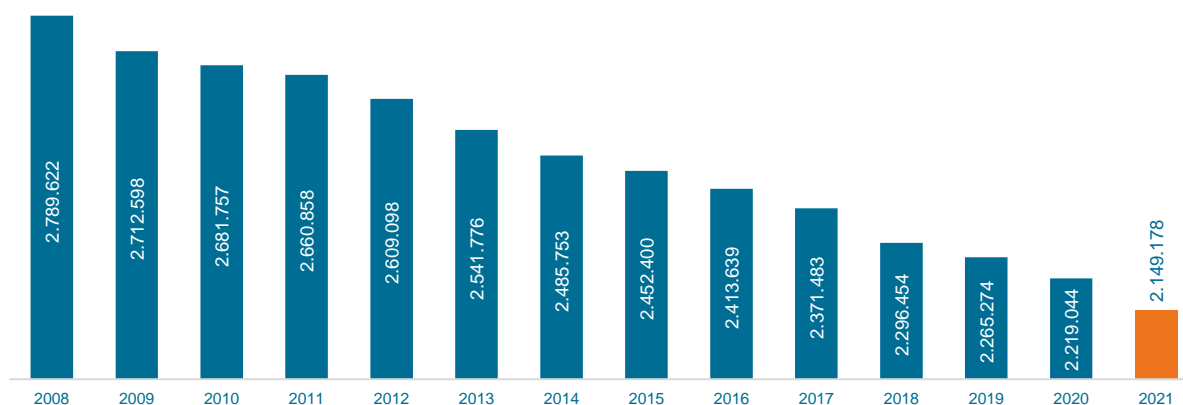
Subsidiaries of credit institutions in the EU



Bank staff

Banks have a large stake in society as important job creators. Banks employed slightly over 2 million people in the EU by end-2021. This is about 70,000 fewer than in 2020.

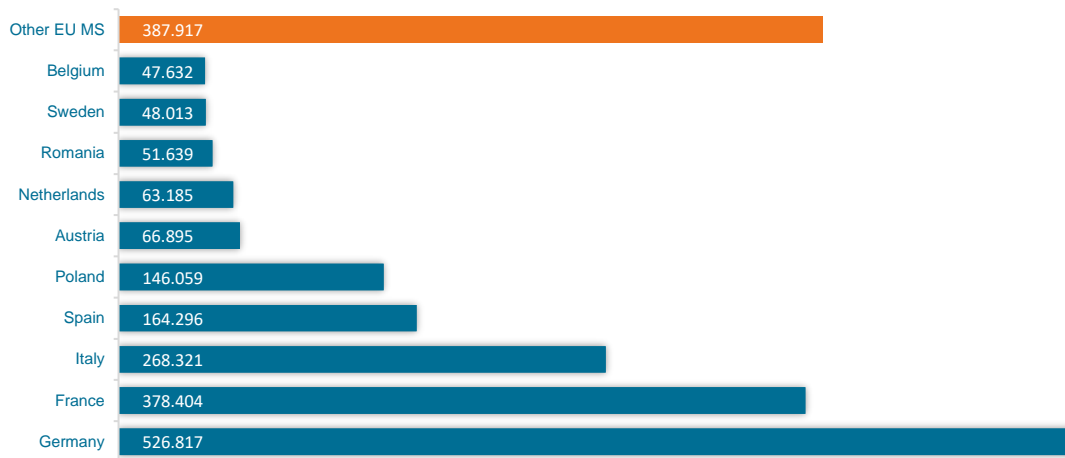
Number of employees in credit institutions in the EU



The countries with the largest number of jobs in this sector continued to be the countries with the largest financial centres in the European Union: Germany, France, Italy and Spain. These four EU economies employed some 62% of the total EU-27 staff. In 2021, the number of employees increased in Hungary, Ireland, Lithuania, Malta, Netherlands and Sweden. The largest drop, in absolute terms, happened in Germany and France with both having a contraction of about 50,000 combined.

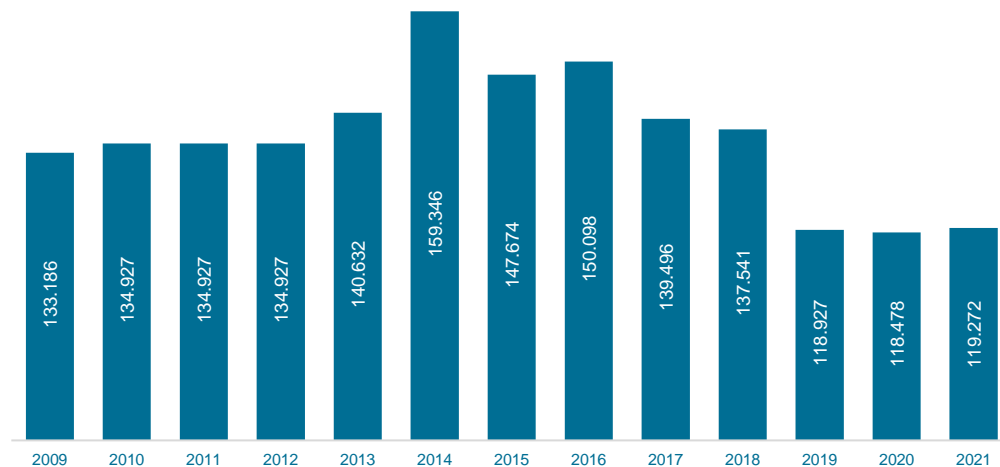
Despite shrinking by about 35,000 compared to its peak in the number of employees reached in 2008, Poland remained the country in Eastern and Central Europe with the largest number of jobs in the sector.

Top 10 countries with largest total bank employees in the EU



Meanwhile in the EFTA countries, the number of bank staff increased again in 2021, reaching 119,272, after a continued decline over the last four years. This is 794 more than in 2020, but about 40,000 less compared to its peak in 2014. While Norway had a minimal decrease (40), Iceland, Liechtenstein and Switzerland added employees, with Switzerland adding about 1,000 in 2021. Switzerland employed about 75% of the total EFTA staff in 2021.

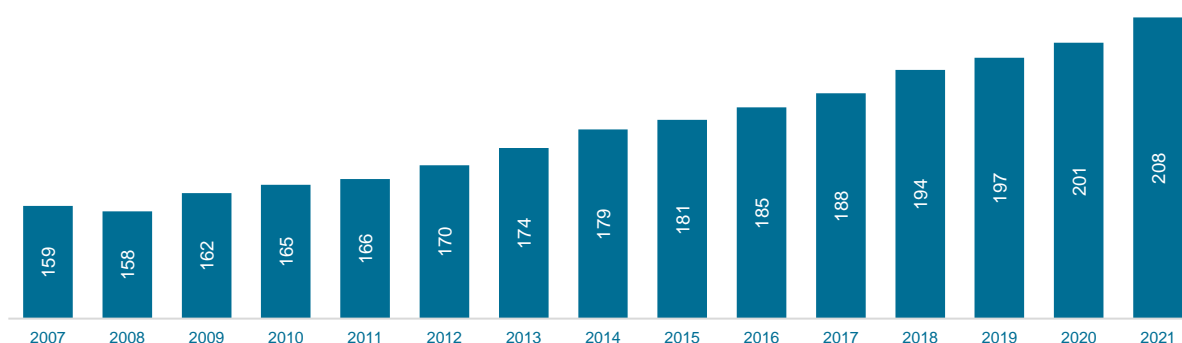
Number of employees in credit institutions in the EFTA countries



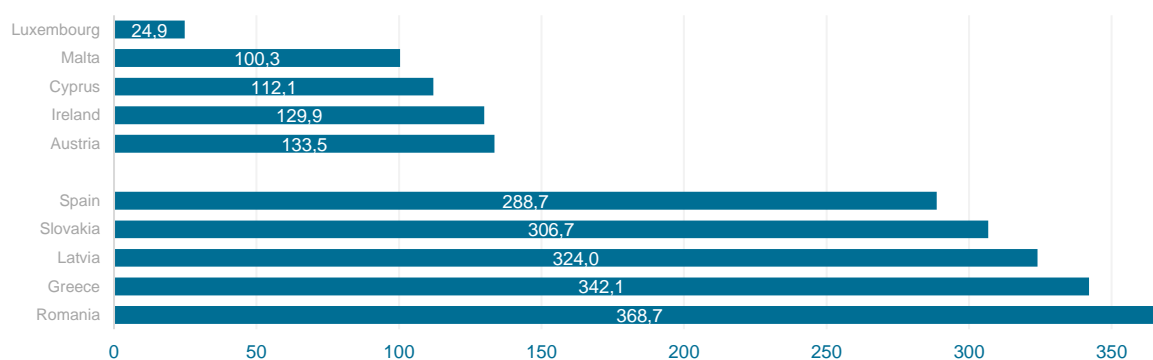
In the United Kingdom, the number of staff employed in the banking sector was about 322,000 in 2021.

Reflecting a contraction in the banking sector, the average number of inhabitants per bank staff member in the EU Member States slightly rose from 201 in 2020 to 208 in 2021. The average number has been rising each year since 2008, when it was 158, with a 31.6% increase in total. Romania continues to be the country with the highest number with 369 inhabitants per bank staff member, while Luxembourg remains with the lowest number with about 25 inhabitants per employee.

Inhabitants per bank employee in the EU

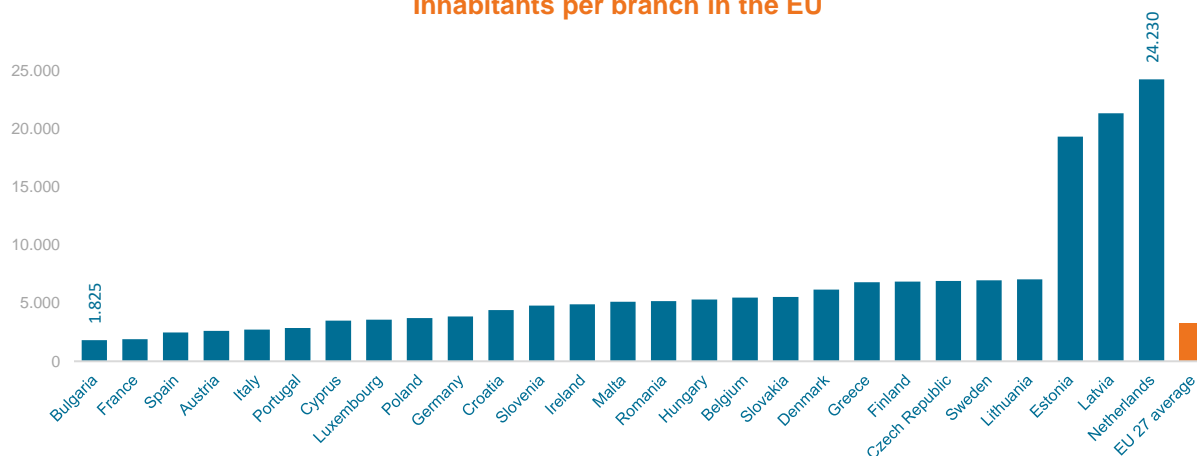


Inhabitants per bank employee Countries with the lowest and highest number



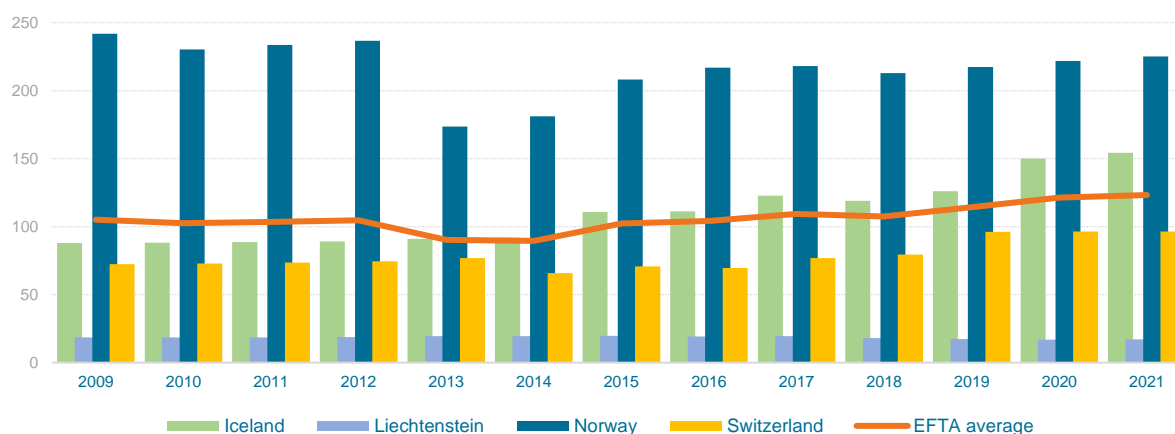
Regarding the number of inhabitants per bank branch. Bulgaria is at one extreme, where each branch welcomes an average of 1,825 citizens, while at the other is the Netherlands where a branch provides services to an average of 24,230 inhabitants. The average number of inhabitants per bank branch in the EU-27 is 3,229.

Inhabitants per branch in the EU



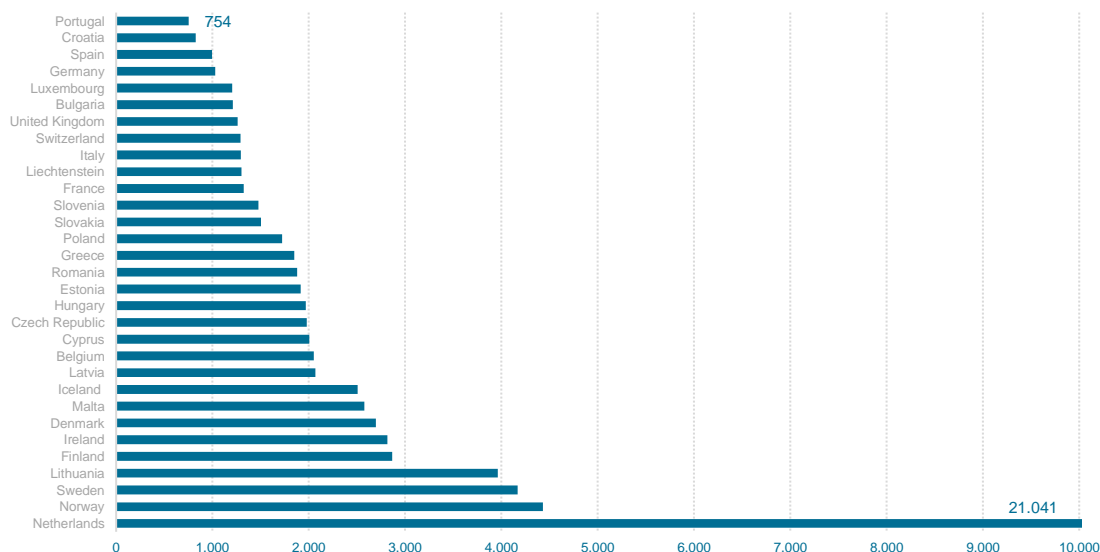
The number of inhabitants per bank staff in the EFTA countries jumped to 123 in 2021 up from 121 in the previous year. Norway continues leading the area with highest number, 225 inhabitants per bank staff member, followed by Iceland (154), Switzerland (96) and Liechtenstein (17).

Inhabitants per bank staff in the EFTA countries



The number of ATMs in the European Union totalled 333,786 in 2021, or almost 55,000 less than in 2020. This represents an average of 1,340 inhabitants per ATM in 2021 in the EU. This decline signals the increasing lower demand for cash confirming the move towards the increasing use of digital banking and payments. As far as convenience and accessibility of banking services are concerned, Austria and Portugal lead in terms of the number of inhabitants per ATM with 691 and 754 respectively. At the same time the two countries with the least number of inhabitants per ATM was registered in the Netherlands and Liechtenstein. The EFTA countries counts with about 8,200 ATMs resulting in approximately 1,800 inhabitants per ATM. With 53,200 ATMs, the number of inhabitants per ATM in the United Kingdom reaches about 1,260.

Inhabitants per ATM in the EU, EFTA and United Kingdom



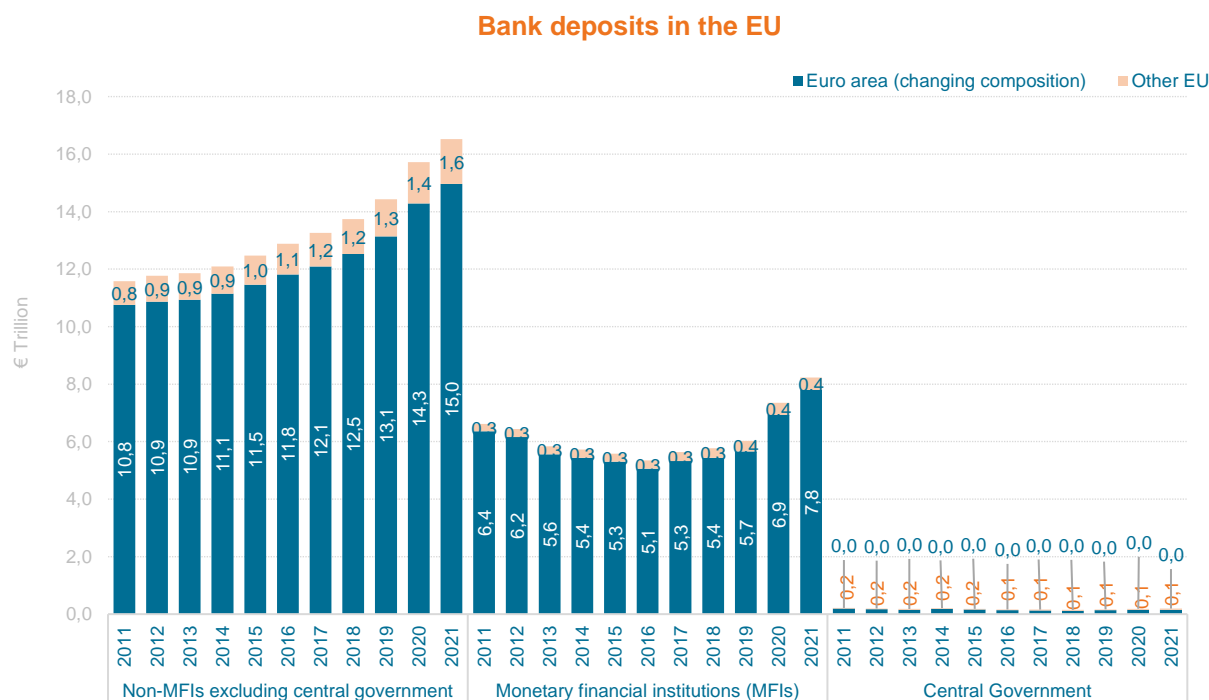
Chapter 2

Supporting customers

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Deposits

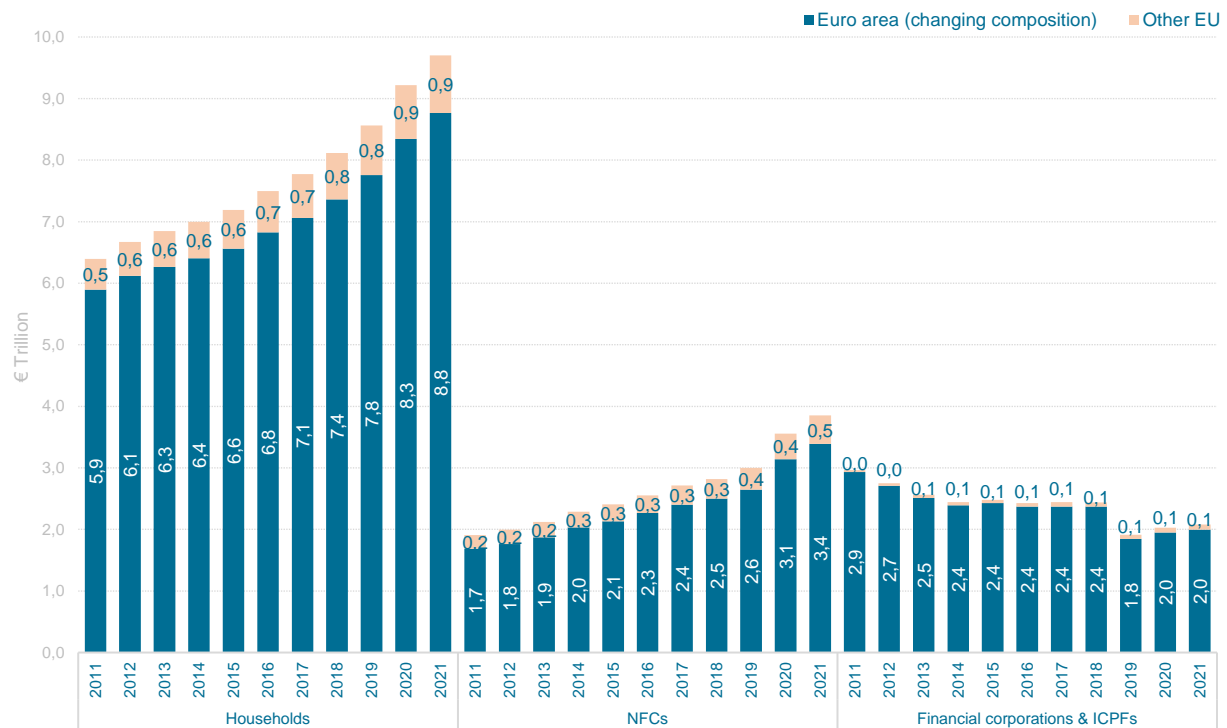
Deposit liabilities in the EU rose by 7% to about €25 trillion driven mainly by growth in deposits in the euro area. MFI deposits saw the largest increase in Cyprus, Lithuania and Slovakia. Deposits of non-MFIs excluding central government rose by about €130 billion in France and Germany respectively and by €123 billion in Italy.



Total deposits from non-MFIs, excluding central governments, grew by 5.7% to €16,5 trillion in the EU at the end of 2021, with almost €15 trillion in deposits in the euro area. This compares with €11 trillion and €7,9 trillion, respectively, in 2006.

Growth took place in deposits from households (including non-profit institutions serving households), non-financial corporations (NFCs) and financial corporations and IPCFSs which rose to €9.6 trillion, €3.8 trillion and €2.08 trillion respectively.

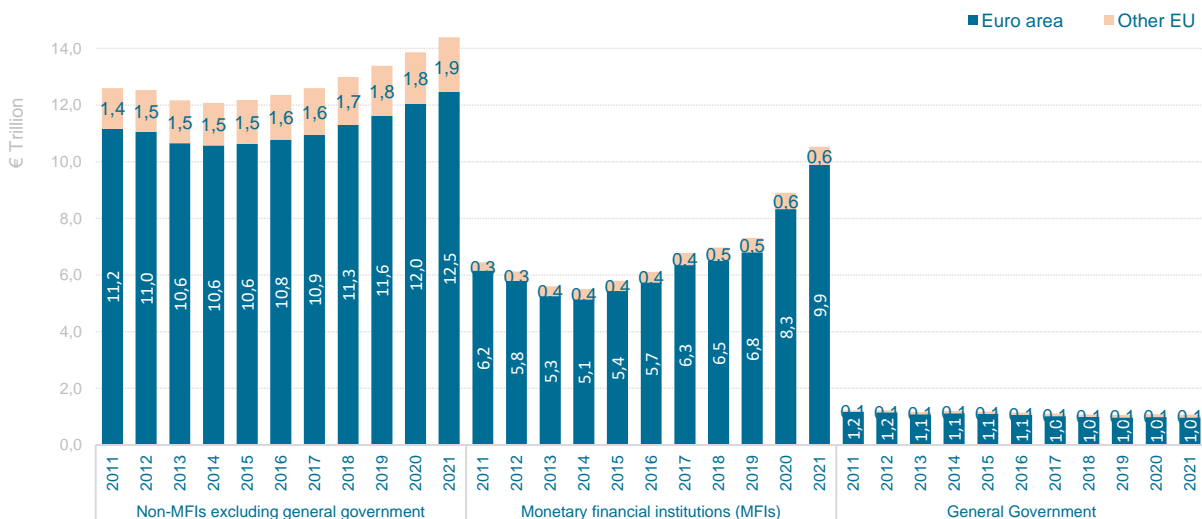
Deposit by counterparty sector in the EU



Loans

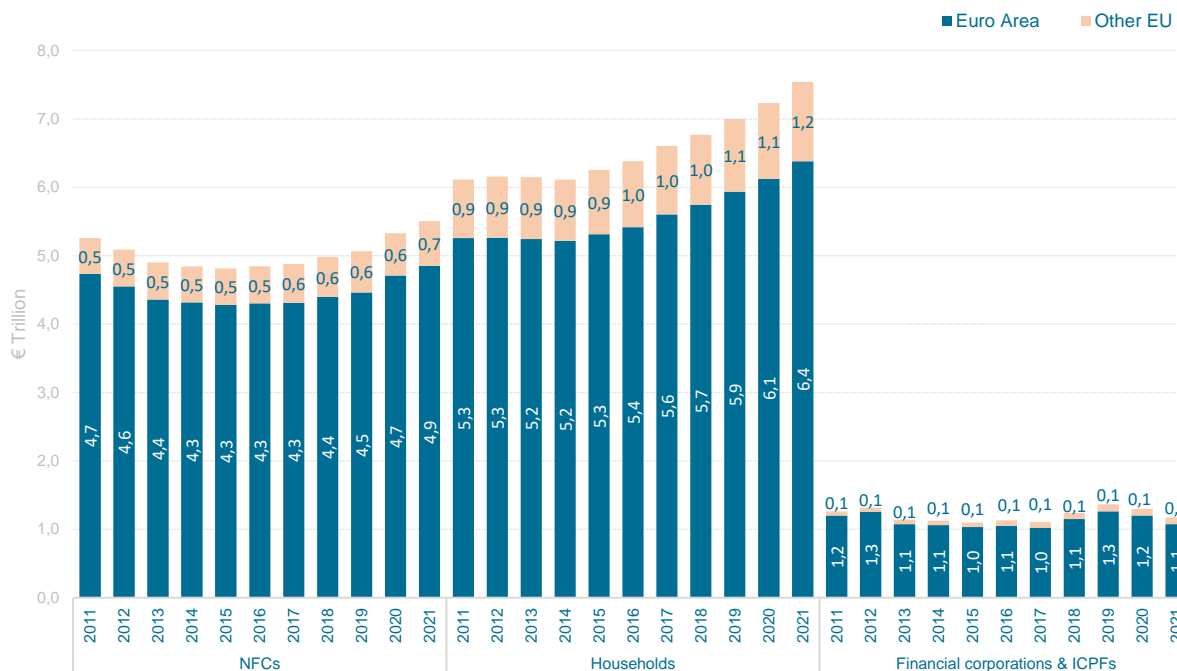
The total value of loans outstanding from EU MFIs increased by 13% in 2021 to about €26 trillion, the highest level since 2012. The increase mainly came from growth in loans to MFIs in the euro area which rose by about 19% year-on-year to almost €10 trillion.

Bank loans in the EU



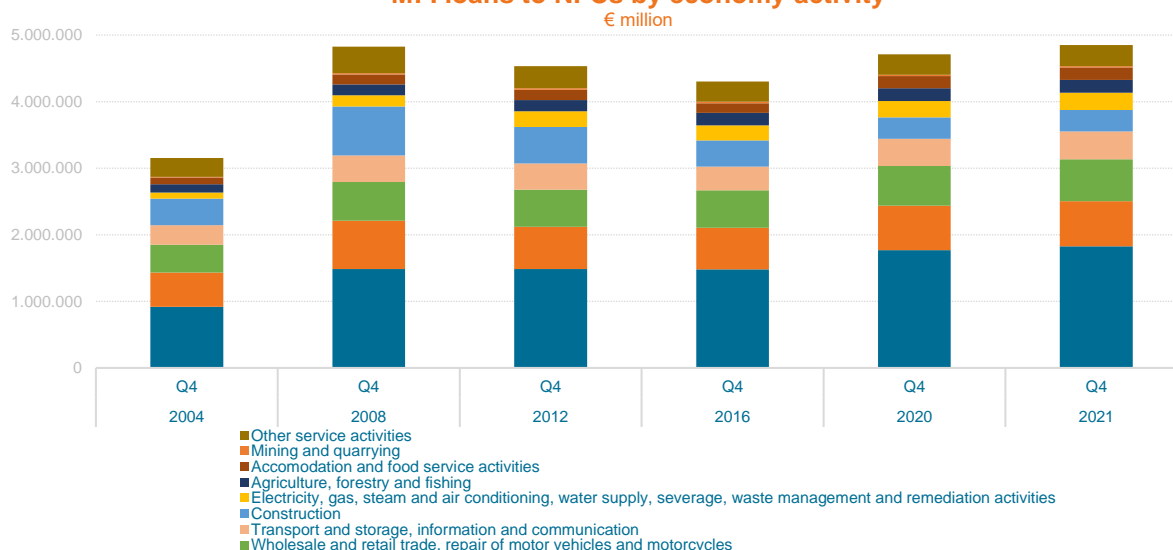
Loans to EU households rose by 4.3% in 2021 to €7.5 trillion. Loans to households in the euro area grew for the sixth successive year, adding almost €1.5 trillion on loans outstanding since 2008. NFC loans outstanding in the EU rose by 3% in 2021 to about €5.6 trillion.

Loans to counterparts in EU



Real estate activities, professional, scientific and technical activities and administrative and support service activities continued accounting for more than one third (37.7%) of loans outstanding at the end of 2021, and up from 30.8% in Q4 2008. The next two largest sectors with loans outstanding were manufacturing and the wholesale and retail trades accounting for 14% and 12.9% respectively. Construction fell from 6.9% of loans outstanding to 6.6% being the only sector decreasing its share compared to the previous year.

MFI loans to NFCs by economy activity



Chapter 3

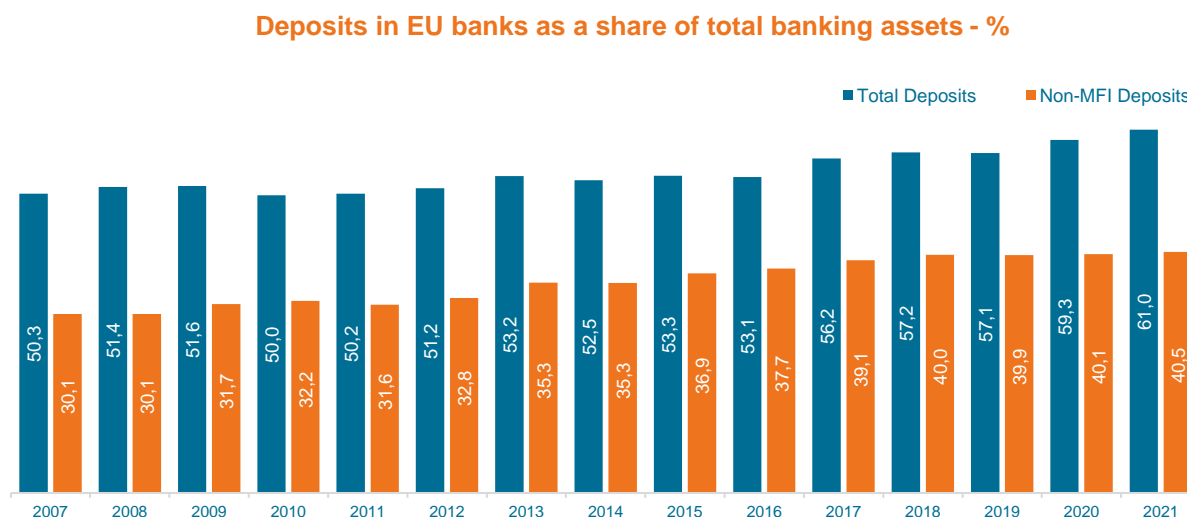
Banking sector performance

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Bank funding

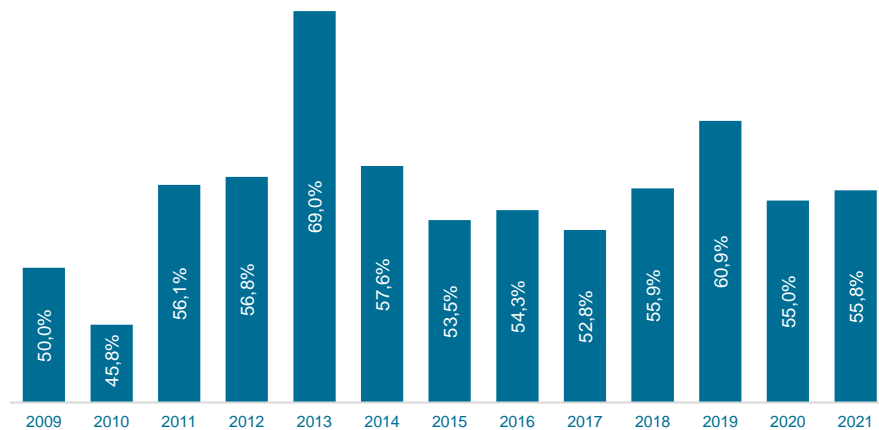
The share of deposit liabilities over total assets reached in 2021 at 61%, in line with the positive trend started in 2007 that confirms the shift towards greater reliance on deposits as a source of funding. The rise in the share of non-MFI's deposits to total assets slightly increased from 40.19% in 2020 to 40.5% in 2021.

The country breakdown for total deposits shows the lowest shares recorded in 2021 were in Denmark and Ireland where domestic deposits were equivalent to about a third of the assets with 31.1% and 31.7% respectively. Meanwhile, countries with the largest shares of deposits financing the banking sector's assets were Lithuania, Slovenia and Greece, all of which had deposits equivalent to 80% or more of assets. The share of non-bank's deposits to total assets was also highest in Lithuania (79,8%) and lowest in Denmark (18.9%).



After having experienced a substantial decrease in the share of deposit liabilities over total assets in 2020, the EFTA countries remain stable in 2021 reaching 55.8% compared to a 55% a year earlier.

Average deposit liabilities per assets in EFTA countries

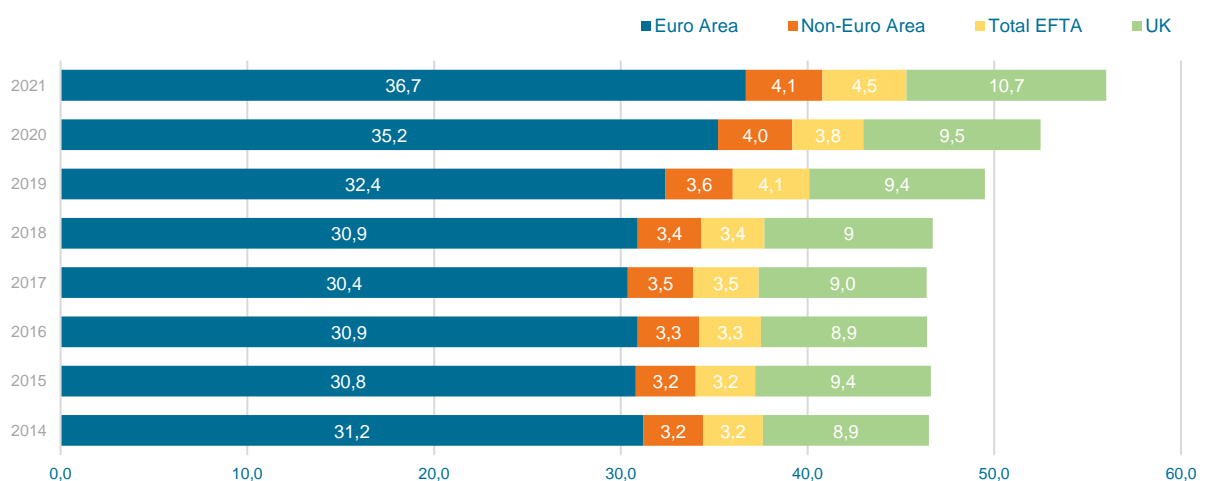


Assets

After recording in 2018 a moderate recovery in the total assets held by EU banks, the trend has been upward since then. The amount of total assets expanded in 2021 for fourth consecutive year, this time enlarged by approximately €1.6 trillion from the previous year amounting to €40.8 trillion (€36.7 billion in the euro area and €4.1 billion in the non-euro area).

Total assets held by operating banks in the EFTA countries and the United Kingdom in 2021 was €4.5 trillion and €10.7 trillion respectively.

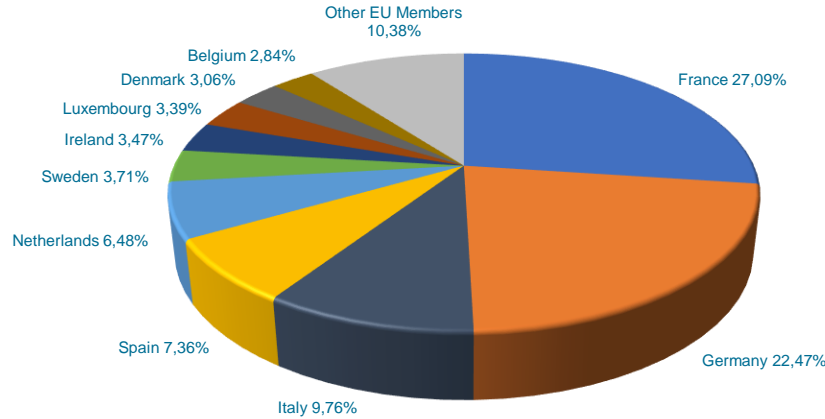
Total assets held by banks in the EU, EFTA and UK € trillion



Considering the country breakdown, the country with the strongest boost in percentage points were Hungary (14.3%) and Slovakia (14%). Among the four largest economies, France, Germany, Spain and Italy, all registered positive results in their stock of assets equal or lower than 5%. Only two countries experienced reductions in their stocks of assets: Denmark (-0.4%) and Greece (-2.3%).

Share by country of total assets held banks in the EU

Total assets: € 40,825,657



Bank profitability

The return on equity (ROE), a key indicator to assess the banking sector's attractiveness for investors, has been slowly recovering, with setbacks in between, after sharply contracting since reaching a peak in 2007 (10.6%). After a drop in 2020 returning to levels (1.9%) seen last time in 2013, the ROE of EU banks was 6.3% in 2021.

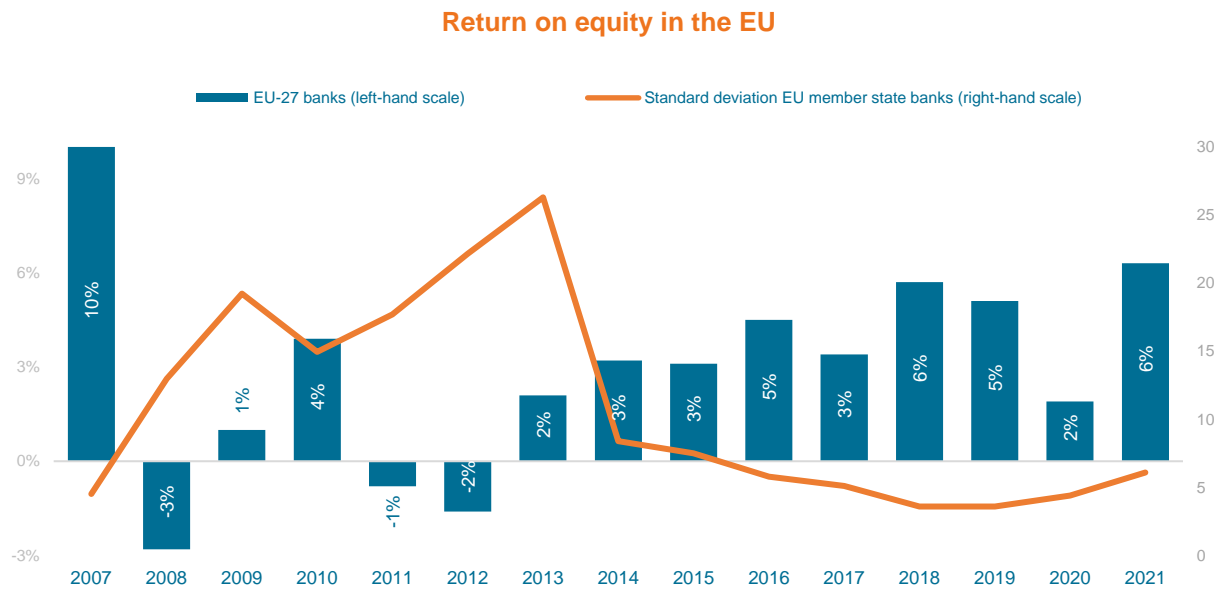
Reflecting on the national breakdown, all countries, but Greece have a positive ROE, with six countries having a double-digit ROE: Czech Republic, Spain, Hungary, Lithuania, Romania and Sweden, ranging from 10 to 13.1%. The difference between the highest (Romania) and lowest (Greece) ROE was 33 percentage points in 2021, higher than the 15.3 in 2019 but very far from the 101.6 recorded in 2013.

Return on equity by country in the EU

(%)



The ROE across EU countries has diverged since 2007, signaling growing fragmentation, particularly across the euro area. After reaching a peak in 2013 (26.3), the dispersion around the average ROE has substantially decreased falling to 3.6 in both 2018 and 2019, albeit slightly rebounding afterwards. The dispersion is at 6.1 in 2021.



Chapter 4

Country-by-country overview

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Austria

Since the COVID-19 pandemic took hold in Europe in spring 2020, the Austrian economy has been largely driven by infection waves and related containment measures adopted by the government. After a steep slump in 2020 as a whole (–6.5%), the economy recovered quickly in 2021 (+4.6%); by mid-2021, economic activity in Austria had already reached pre-pandemic levels. The war in Ukraine and the uncertainty regarding its further course has dampened the growth outlook, however. High energy prices have fueled inflation and affected the purchasing power of households. Furthermore, Germany, Austria’s main trading partner, is expected to enter into a recession in 2023. A cut in Russian gas supplies to Austria poses a major downside risk to growth.

Financial assets held by households totaled €806.1 billion or 198.5% of GDP in 2021. The household sector’s debt ratio stood at 52.4% of GDP in the first quarter of 2022, while corporate debt in Austria equaled 99.1% of GDP in the first quarter of 2022. Both indicators were below the euro area average.

Several micro- and macroprudential measures as well as banks’ corresponding efforts have contributed to the high resilience of the Austrian banking system. The measures include (i) the Austrian sustainability package aiming at strengthening the local, stable funding of foreign subsidiaries, (ii) micro- and macroprudential capital buffers, i.e. the systemic risk buffer, which also explicitly targets risks in CESEE including Russia, and the O-SII buffer, as well as (iii) borrower-based measures to address systemic risk from real estate financing (in form of an own regulation targeting at new residential mortgages, see below in detail).

In 2021, the Austrian banking sector’s aggregated operating profit increased by 10% year on year, and risk provisioning decreased by about 60%, both reflecting a strong recovery. Profits totaled EUR 6.1 bn (+66% year on year). While 2021 was a bounce-back year, in 2022 and 2023, the Austrian banking sector’s profitability is facing new and continuing challenges associated with the Russian invasion of Ukraine, high inflation, energy shortages as well as remaining pandemic-related uncertainties and structural efficiency challenges. In the first half of 2022, operating income rose by more than one-tenth year on year, supported by stronger net interest income and dynamic growth in fees and commissions, but operating costs rose much quicker, mainly due to impairments on participations. Consequently, operating profit declined by 17%. But despite an increase in risk provisioning, the banking sector posted a half-year profit of €3.8 billion on the back of several one-off effects (such as the increase of extraordinary profits and earnings from discontinued operations). The consolidated NPL ratio of Austrian banks remained at a historic low of 1.8% as of half-year 2022.

The economic recovery in Austria led to an increase in bank lending in 2021. The demand for corporate loans was driven by the need for financing for inventories and working capital. As a result, corporate loans grew by 10.8% in July 2022 (year on year). Loans to households expanded by 5.4% mainly due to continued demand for housing loans (+6.9%).

The Austrian banking network consists of 520 banks with some 3,420 branches holding €1,197.2 billion in total assets on a consolidated basis. The banking sector has more than doubled its capitalization and hence increased its resilience since the time before the global financial crisis in 2008–09 and thus increased its resilience. As of June 2022, the CET1 ratio of Austrian banks stood at 15.8%, which means it had lost ground compared to the EU average. Hence, the careful handling of profit distributions is still warranted as uncertainties prevail.

The Austrian Financial Market Authority (FMA) has issued a new regulation for sustainable lending standards for residential real estate financing. It includes upper limits for loan-to-value ratios (90%), debt service-to-income ratios (40%) and loan maturities (35 years) – subject to exemptions that would give credit institutions adequate operational flexibility. As of August 1, 2022, these new measures apply to all new mortgage lending to households above €50,000.

In September 2022 the Austrian Financial Market Stability Board (FMSB) decided that macroprudential capital buffers (i.e. the systemic risk buffer (SyRB) and the other systemically important institution (O-SII) buffer) should be increased by 50 bp as of December 30, 2022, at maximum (phase-in by 25 bp p.a.) for 12 banks.

Belgium

According to the most recent update in autumn 2022 of the European Commission, after an increase of 6.1% in 2021, Belgian GDP is expected to grow much slower, by 2.8% in 2022 and 0.2% in 2023. In May 2022, The National Bank of Belgium also estimated the economic growth to slow down in 2022 (+2.4%), 2023 (+1.5%) and 2024 (+2.0%). Main reasons are the high inflation rates and worldwide problems in supply chains due to the war in Ukraine, which also impacts household consumption. The unemployment rate rose slightly from 5.8% in 2020 to 6.3% in 2021, but remains below the rate of the EU (7.0% in 2021).

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 representing 67% of the sector total at the end of 2021). They 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 is often active in a limited number of market segments.

A number of institutions has 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 81 banks established in Belgium end of December 2021, 80.2% are branches or subsidiaries of foreign institutions. Only 19.8% of the institutions has a Belgian majority shareholder ship. At the end of 2021, 13 credit institutions under Belgian law had 77 entities in 24 other countries.

At the end of 2021, the number of bank branches in Belgium amounted to 183 per million inhabitants. When adding the number of branches held by independent bank agents, this number reaches 329 per million inhabitants. The number of ATMs amounted to 7,919, including 5,407 cash dispensers. E-banking and mobile banking are on a strong rise: 14.6 million subscriptions for internet banking and 10.5 million subscriptions for mobile banking (Belgian population: 11.6 million). After the covid period (2020), the number of cash withdrawals remain at a lower level while the number of card payments (and contactless payments) kept on rising. This is why several banks are restructuring their retail distribution network and will continue to do so.

End of 2021, the Belgian banks' total assets (on a consolidated basis) amounted to €1,151 billion. Loans to households account for almost 1/4th of the total balance sheet, followed by Interbank claims (21%) and investment in debt securities (15%). Corporate lending to non-financial companies takes up about 14% of the total assets. 62% of the liabilities of the Belgian banking sector are debts to clients (other creditors included), mainly consisting of regulated savings deposits, sight deposits and term deposits. The other 38% of the liabilities consist of interbank debts (19%), debts represented by a security (7%), own resources (6%) and the remaining other liabilities (3%), subordinated debts (2%) and write-downs, provisions, provident funds and deferred taxes (1%).

The Belgian banking sector is essential to finance the economy. In recent years, banks have eased their criteria for granting loans to companies. In the fourth trimester of 2018, banks slightly tightened these criteria for the first time since the first trimester of 2013. They also tightened their criteria in the second and third trimester of 2021. In 2021, demand of companies for mainly short term loans increased strongly in the second and third trimester of 2021. In the remainder of the year demand for credit decreased again. The demand for long term loans kept on increasing albeit at a much more moderate pace. In 2021, companies wanted to make maximum use of the exceptionally low interest rates, driven by the ECB's extremely accommodating stance. However the average weighted cost of lending remained stable around 1,5% during 2021, the rate is on a rise since January 2022.

Corporate financing in Belgium has become more diversified. Companies also use asset-based financial instruments, such as leasing, from independent leasing companies or leasing subsidiaries from banks. The larger companies also rely directly on the financial markets (e.g. for 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 €1,557 billion at the end of 2021. In addition to their large offer of deposit products (Belgian households, non-banking companies and public authorities had around €630 billion in deposit accounts), 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 60.4% in 2021, indicating a significant improvement in cost efficiency. The return on equity (ROE) stood at 10.2% in 2021. The Liquidity Coverage Ratio and CET I ratio also remained very robust in 2021, at 184.3% and 17.6% respectively. In 2021, the NPL ratio slightly decreased from 1.8% in March 2021 to 1.5% in December 2021.

Banks in Belgium employ almost 50,000 persons (of which almost 51% women), with 112.600 in the wider financial sector. Gender equality and equal rights are high on the agenda of the Belgian financial sector with 47 financial institutions representing over 90% of the financial sector signing the Wo.men in finance Charter. WIF advocates for equal opportunities for everyone in the financial sector. The Glass ceiling index is improving, so is the percentage of women in senior management positions. Next to equal rights, the sector also invests permanently in staff skills: of all banks governed by Belgian law, almost 2 million hours and 2% of total annual staff costs is spent on training. The swift digitisation is one of the factors that necessitate a permanent shift in competences.

The sector is aware of the major challenges ahead. The environment of continuing 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. 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. Other challenges we are facing in the financial sector are cyber threat, the war for talent, fintech, other big techs and so on.

Bulgaria

Following the weakened economic activity in 2020 (-4.2%), the Bulgarian economy gained momentum and registered an annual growth of 7.6% in 2021. It was predominantly driven by private consumption, the consumption of the general government, and by changes in inventories.

In 2021, the unemployment rate decreased to 4.8% from 6.1% at the end of the previous year. The average annual change of HICP in Bulgaria accelerated to 2.8% from 1.2% in 2020.

In 2021, the banking sector operated in a state of gradual recovery from the COVID-19 pandemic. The substantially lower impairment expenses and accrued provisions, the accelerated lending and business activity, the low interest rates, and the management of the credit portfolio quality impacted the financial result of the banking sector.

The activity of the banking system was further influenced by the membership in the Single Supervisory Mechanism and the Single Resolution Mechanism, the established close cooperation between the BNB and the ECB, and the inclusion of the Bulgarian lev in the Exchange rate mechanism (ERM II). With regards to Bulgaria's commitment to adopt the single European currency, a draft National Plan for the Introduction of the Euro with a target date of January 1, 2024, has been prepared and adopted.

As of December 31, 2021, 25 banks were operating in Bulgaria, including 7 foreign bank branches. The top five banks held approximately 66.9% of all assets. At the end of 2021, the market share of five significant institutions (according to the ECB criteria) comprised 66.6% of banking system assets, less significant banks held 30.4%, and branches of foreign banks 3.0%. In 2021 the consolidation process in the Bulgarian banking sector was marked by the acquisition of Raiffeisen bank Bulgaria by KBC Bank NV.

The COVID-19 pandemic boosted the usage of cashless payment methods. In this respect, the number of card payments initiated through physical POS in Bulgaria grew by 29.5% in 2021 compared to 10.3% in 2020. In addition, the number of card payments initiated remotely (via the Internet) increased by 52% compared to 2,3% in 2020. According to the National Statistical Institute data, the share of people using the Internet for banking grew to 14.9% in 2021 from 12.6% a year ago.

In 2021 the banks' total assets increased by 9.2% year-over-year to €69.2 billion (BGN 135.4 billion). The share of loans and advances slightly decreased to 58.2% compared to 58.9% at the end of 2020. The share of cash declined to 21% from 21.9%, and the share of securities grew to 16.7% from 14.6% a year ago.

The total outstanding amount of loans to the non-government sector (non-financial corporations and households and NPISHs) grew by 8.3% to €33.84 billion (BGN 66.19 billion) from €31.26 billion (BGN 61.13 billion) in 2020, according to the BNB monetary statistics. In 2021 the outstanding amount of loans to non-financial corporations increased by 4,6% (from 3% in 2020), reaching €19.06 billion (BGN 37.28 billion). By sector classification, the highest amount of loans and deposits were reported in the trade and manufacturing sectors.

As of the end of 2021, the amount of non-performing loans (NPLs), excluding central banks and credit institutions, continued to decline, reaching €1.57 billion (BGN 3.07 billion) in absolute terms, or 4.05% as a share of the gross loan portfolio. Concurrently, the provision coverage ratio in the Bulgarian banking system remained higher than the EU average.

Despite the prolonged period of low interest rates, deposits accumulated by the banks increased by 9.1% and reached €52.1 billion (BGN 101.9 billion) in 2021, or 73% of GDP. Approximately two-thirds of the deposits were held by the household sector (65.3%).

According to the BNB interest rate statistics, in 2021 the average interest rates on new deposits and new loans registered a slight decline compared to 2020.

By virtue of the gradual economic recovery and accelerated lending activity in 2021, the net profit of the banking system increased by 73.8% to €724 million (BGN 1,416 billion). The net interest income rose by 4.1% to €1.41 billion (BGN 2.76 billion) after a drop of 3.5% in 2020. The net income from fees and commissions grew by 19.5% to €634 million (BGN 1.24 billion).

In 2021 the Bulgarian banking sector continued to have a solid capital position maintaining capital and leverage ratios well above the regulatory requirements. At the end of 2021, CET 1 of the banking system was 21.66%, and the total capital adequacy was 22.62%. The LCR stood at 274.1%, and the NSFR introduced in June 2021 reached 166.0%, significantly exceeding the regulatory requirements. In 2021, ROA increased to 1.05% from 0.66%, and ROE grew to 8.5% from 5.3% a year ago.

As of the end of 2021, 65,100 people were employed in the financial sector, and approximately half of them were in the banking sector.

Croatia

After a strong growth rebound in 2021 (13.1% year-on-year) following the COVID-19 pandemic, the Croatian economy continued on a similar footing, recording an 8.2% year-on-year rise in 1H 2022. Surging goods exports and the tourism-driven recovery of services, together with the tight labor market, supported private consumption despite the inflationary environment. Both private and public investments also increased, thus enabling broad-based expected growth in 2022 at around 6% year-on-year. On the other hand, due to stubbornly high inflation, real wage growth turned negative, weighing on business and consumer sentiment. Due to the global nature of these factors, the EU growth outlook is hampering Croatia's expected export performance, especially in 1H 2023. Later in the year, as inflation moderates and real wage growth hopefully resumes, economic activity is expected to recover slightly, which should allow Croatia to expand by around 1% year-on-year in 2023.

Motivated by the desire to adopt the euro and meet the Maastricht criteria, Croatia already managed to slash the budget gap below 3% of GDP in 2021 (2.6% of GDP). The general government deficit is forecast to reduce further this year to 1.6% of the GDP, driven by the phasing out of COVID-19-related measures and strong nominal growth supporting the revenue side of the budget. On the revenue side, VAT intake will grow despite some tax cuts, backed by strong economic performance and high inflation, while direct taxes and contributions are set to benefit from the tight labor market and rising nominal wages. While the anti-inflationary package is reported at HRK 21bn (approx. 4% of GDP), the direct fiscal impact should be far more modest (in the 1% of GDP region), as the remainder will be a burden on state-owned energy producer profitability and incorporates EU-funded green transition projects and CBRD loan and guarantee facilities. The deficit is projected to increase in the following two years, as the government has adopted measures to support households and companies while the growth slowdown simultaneously curbs the revenue stream, but remains below 3% of GDP. Public debt levels are seen as settling below 70% of GDP, implying an approx. 20pp adjustment from the pandemic peak in 2020.

Inflation is forecasted to remain high and slightly above the EA average in 2022 and 2023, reaching levels close to 10.5% and 6.5% on average, respectively, as the increases in food and energy prices eventually pass through to core inflation. Price caps and the expected gradual normalization of energy prices, together with strong base effects, are expected to moderate inflation in 2023, although it will remain high relative to historical averages. In 2024, negative energy inflation is likely to push the inflation rate further down, and closer to the Euro area average.

As expected, CNB monetary policy actions ahead of euro adoption brought little surprise and an absence of restrictive actions. The CNB continued to maintain the tight peg with basically no effort, as we saw no stronger deviation from the conversion rate. Ample LCY liquidity received an additional boost from the prudential framework alignment and announced a two-step reserve requirement cut by 8 percentage points to 1%. As euro adoption nears, the focus is steadily turning toward ECB policy-making. Hence, global factors reshaped the inflation and risk profile and in turn the ECB policy stance and consequently led to the tightening of monetary conditions on both the EUR and LCY curves. In that sense, market volatility remains pronounced, as uncertainty regarding the outlook remains pronounced.

On the rating front, important integration steps were a strong tailwind in the recent period. Following the final green light for euro adoption, a two-notch upgrade from S&P and Moody's and one notch from Fitch, is now positioning Croatia deep within the investment grade region and aligning it closer to its EA CEE peers.

This year, mirroring strong economic activity, also brought a considerable surge in credit demand. Total credit growth accelerated to 8.1% YTD (September 2022). Looking at sector dynamics, corporate credit

activity recorded especially strong dynamics (18.1% YTD). Part of such strong dynamics can be explained by prudent company actions as they seek to refinance before the expected rise in interest rates and higher working capital needs. The household segment also shows credit expansion, albeit at a more moderate pace (4.8% YTD), driven mostly by the vivid housing loans segment.

On the deposit side, overall deposits also recorded strong growth, rising 11.6% YTD (September 2022). The pace of corporate deposit growth is especially strong, rising 19.7% YTD, while household growth stands at 8.3% YTD, supported by a successful tourist season and stronger deposit inflow ahead of the conversion to euro.

Following the recovery throughout 2021, banking sector performance kept up a strong tone in 1H22 as well. On the profitability side, ROA remained virtually unchanged at 1.2, while ROE showed ongoing improvement at 9.5%. As far as efficiency is concerned, the CIR (Cost Income Ratio) remains close to pandemic levels at 53.3%, with the nearing euro adoption weighing on the near-term outlook. Risk metrics continued to improve owing to favorable macroeconomic conditions and lacking stronger effects from war developments, as NPL edged further down to 3.8% (-0.5 percentage points YTD) and coverage maintained a steady trend averaging close to 65%. Strong capitalization adds to resilience as the solvency ratio remains among the highest in the EU at 25%. The consolidation trend has been driven by the declining number of housing savings banks, with the total number of credit institutions being down to 21 (from 23). Also, due to the Russian invasion of Ukraine, the local subsidiary of Sberbank has been acquired by state-owned HPB bank. The competitive landscape favors ongoing consolidation, as achieving economies of scale remains a challenge for longer-term sustainability.

Cyprus

Despite the pandemic the Cyprus economy has proved its resilience, as indicated by the GDP growth rate of 6.6% in 2021 and the upgrades from credit rating agencies. The unemployment level remained steady at 7.5% in 2021. The banking sector returned to profitability within 2021 and managed to maintain its capitalization at healthy levels with a solvency ratio of 20.7% and CET1 of 17.7% in December 2021. There is still excess liquidity, as evidenced by the loan to deposit ratio of 58%.

Over the last 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, having managed to gradually restore credibility, restructure operations and procedures, and overcome challenges to finance new viable projects and investment opportunities. Lessons learned during the last years have prepared the banking sector well to respond to the new crisis and extraordinary circumstances.

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 29 authorised credit institutions in Cyprus, consisting of six 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 and Hellenic 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.

As of the end of 2021, members of the Association of Cyprus Banks had 218 branches in Cyprus and a total of 7,463 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 2021, aggregate bank deposits increased to €51.5 billion (2020: €48.2 billion). Bank deleveraging is continuing, and total outstanding loans were reduced by €1.9 billion throughout 2021 to €29.9 billion as banks maintained their efforts to reduce non-performing loans (NPLs). Nevertheless, during the year a total of €2.9 billion of new lending was given to firms and households.

The banking sector is making progress in addressing the high level of NPLs. Within 2021, the total amount of NPLs was reduced by 42%. The NPL ratio at the end of 2021 was 11.0 % (2020:17.7%).

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. This has been extended to more schools and students in the country and a new programme was introduced to secondary school students.

Czech Republic

The Czech economy contracted by 5.5% in 2020 amid Covid pandemic and year 2021 remained effected by the pandemic measures as in many other European countries. The Czech economy contracted further in 1Q 2021 due to lockdowns, and post-covid recovery in the second half of the year was significantly slowed down by the supply-chain disruptions which interrupted industrial production, mainly automotive segment. Still, for the whole 2021, Czech economy grew by 3.5%, but in 4Q 2021 it remained still 1.3% below pre-covid 4Q 2019. From this perspective, recovery was one of the slowest among EU. Due to government measures, however, unemployment rate remained the lowest in the EU at 2.8% vs. 2.0% in 2019.

Due to recovery in households' consumption in 2H together with supply-chains disruption, inflation started to accelerate in mid-2021, hitting 4.1% in August (the highest print since end-2008) and getting to 6.6% in December (5.4% in HICP methodology not including – compared to domestic methodology – so called imputed rents, which was pushing inflation higher in 2H 2021 due to increasing property prices and prices of construction materials). For the whole 2021, the average inflation reached 3.8% (3.3 % in HICP). Due to mounting pro-inflationary measures, monetary policy started to react and the Czech National Bank started to increase rates since mid-year from 0.25% to 3.75% till the end of 2021.

At the end of 2021, there were 46 licensed banks operating in the Czech Republic. The structure of the banking sector consists of four large banks, five medium-sized banks, nine small banks, 23 branches of foreign banks and five building societies. The total value of the banking sector's assets increased by about 7%, to CZK 8 600 billion (€340 billion) representing about 141% of GDP.

After 2020, when banking sector profitability fell by almost 50% amid Covid-pandemic and the effects of government restrictions aimed at managing the coronavirus pandemic, the profitability increased by double-digit pace, but remained more than 20% below the pre-pandemic year 2019 (CZK 70bn vs. 47.5 in 2020 and 91 billion in 2019, after-tax).

The share of non-performing loans slightly declined from 2.8% to 2.4 %, getting to the levels even slightly below the ones before the Covid-crisis. In addition, banks maintained a consistently comfortable level of capital in accordance with the Czech National Bank's recommendations, strengthened by unpaid dividends in 2020 and partial restrictions in 2021.

At the end of 2021, the total volume of bank loans increased by 7 % year-on-year, reaching CZK 3 596 billion (€144 billion). Year 2021 was especially strong in terms of housing loans due to gradually increasing interest rates which pushed many households to speed up the decision related to mortgage financing. As such, volume of newly provided housing loans reached record-high CZK 408 billion, of which 370 billion represented mortgages. In year-on-year terms, this is almost 70% increase after still-very strong year 2020. Mortgage rate reached 3% in Dec 2021, the highest print since the beginning of 2014.

In the area of corporate financing, the increase in new loans reached almost 40% (CZK and FX-loan of equivalent CZK 844 billion vs 612 billion in 2020), the volume was supported also by anti-Covid guarantee measures for corporates, which were drawn at the volume of CZK 72 billion at the end of 2021. At the end of 2021, the total volume of client deposits reached CZK 5 502 billion, increased by 6.6% year-on-year. Deposit-to-Loan ratio reached 148 %.

Contributor: Czech Banking Association - Jakub Seidler jakub.seidler@cbaonline.cz

Denmark

The Danish economy has recovered very fast from the effects of the Covid-19 pandemic with a strong growth of 4.9% in real GDP in 2021 following a decline of 1.5% in 2020. At the end of 2020 employment was almost back to the levels before the outbreak of Covid-19 in March 2020. The strong growth in 2021 has further reduced the unemployment rate to just 2.7% and widespread shortage of skilled labor is observed. The Danish economy is in a strong position entering into the energy and inflation crisis caused by the Russian invasion of Ukraine in 2022.

The number of employees in the financial sector is still decreasing, reaching 38,234 employed in 2021 compared with 44,958 in 2000. At the end of 2021 there were 56 banks and six mortgage banks in Denmark. Persistent consolidation has implied a sizeable reduction since 2000, where there were 185 banks and 10 mortgage banks, and while the consolidation is still ongoing (three banks merged with other banks in 2021), the trend has slowed since the aftermath of the financial crisis.

Since the beginning of the financial crisis, the Danish banks have gradually recovered. However, the turbulence in 2020 due to the Covid-19 pandemic caused a decline in the return on equity to 4.6% compared to an average over the previous three years of 9.2%. The Danish economy has recovered very fast from the effects of the Covid-19 pandemic, which is reflected in the banks' profits with a return on equity amounting to 8.2 % in 2021. While the return on equity for Danish banks is strong by European standards, it is significantly lower than in other industries in Denmark.

Overall, the Danish banking sector is robust, and banks have increased their capitalization since the beginning of the financial crisis. The Danish banking sector has also proved to be well-capitalized and resilient in the stress tests conducted by the EBA. 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. Mortgage loans for companies and households constitute almost 80 percentage of total lending in Denmark.

The joint declaration by the Danish government and Finance Denmark in March 2020 specified that the sector committed itself to help clients with liquidity problems due to the Covid-19 situation. Danish banks have offered credits to thousands of customers in temporary financial difficulties due to Covid-19. The total credit given or committed was more than 100 billion DKK (€14 billion).

The Danish parliament has several times in 2020 and 2021 given the option to Danish companies of receiving interest-free loans to cover their VAT and payroll tax payments – known as corona loans of a total amount of 34 billion DKK (€4.5 billion). These corona loans are due for payment in 2022 and 2023. However, the parliament has established the option of an instalment agreement – with interest rates - for up to a further two years. The corona loans can be repaid immediately if the company repays by, e.g., means from a more favorable bank loan with lower interest rates.

Danish companies hit by the Covid-19 crisis continued to receive generous public compensations until the beginning of 2022. However, a relatively small number of companies were still in need of compensation by the summer of 2021. Hence, business demand for bank loans was subdued until the fall of 2021. Thus, only a fraction of the more than 100 billion DKK committed by the Danish banks at the outset of the pandemic was actually extended as loan for Danish companies. Since the end of 2021, the credit growth to companies has been strong.

Bank profitability has also been challenged by the low interest rate environment in Denmark and globally. In Denmark, policy rates turned negative already in 2012, and in recent years net deposit surplus has increased markedly, in part due to the extensive Danish mortgage system. Hence, Danish banks were

amongst the first to introduce negative interest rate on large deposits from private customers in 2019, and this tendency increased throughout 2021, until the central banks started to raise their policy rates to dampen the inflation in 2022.

In 2019, Finance Denmark launched a Forum for Sustainable Finance consisting of leading persons from companies, think tanks and experts within climate and sustainability. 20 recommendations were presented to the financial sector, which Finance Denmark and its members are implementing. According to our sustainability report 2021, the banks have increased the dialogue on energy efficiency and sustainability with their customers. Most banks are now measuring – are preparing to do so – their financed Co2-emissions. Finance Denmark has developed a framework for financed-emissions accounting for the financial sector, allowing members to measure the carbon emissions from their investments and lending, a first step in setting targets for future reductions in financed carbon emissions.

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 €38 billion equivalent to 105% of Estonian GDP (2021). The Estonian banking sector is dominated by foreign capital holding >80% 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 70 bank branches. Estonian customers are operating 1.5 active current accounts per inhabitant and 0,25 corporate accounts per inhabitant.

Estonian banks have issued 1.40 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 €27,8 billion worth of deposits and operate loan portfolio in the value of €22,4 billion. 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.

We are witnessing an upward trend in the average interest rates of new loans. The average rate for long-term corporate loans issued in 10.2022 was 4,45% compared to 2,33% in 10.2021. Average interest rate for new housing loans was 3,9% in October 2022 compared to the 2,3% in same period last year. The average interest margin has decreased 0,1 percentage points to 1,9% in the same period. The 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 for several years.

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.

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 2021 was €405 million.

Finland

The Finnish economy developed favourably in 2021. As the world economy recovered, industrial production increased and the export outlook improved. In addition to vaccination progress, trust in economic development was bolstered by the added growth boost from new stimulus measures and by the easy financing conditions.

The Finnish economy took a strong upturn in early 2021. Both companies and households were in a good financial position and optimistic about the future. Bankruptcies were on a par with the previous years. Unemployment decreased, and the improved employment situation boosted home sales. The housing market was busy, and loans were taken out for both homes and holiday homes at a rapid pace in the summer. In late 2021, however, the growth outlook became more subdued as the economy suffered increasingly from bottlenecks and the accelerating rise of prices. The year 2021 was a time for repairing the damage caused to the economy by the pandemic, and the prevailing mood was that of uncertainty mixed with optimism. Several forecasters improved their economic forecasts on Finland's economic growth throughout the year.

According to Statistics Finland, the volume of Finland's GDP rose by 3.5% in 2021, and Finland managed to reach the pre-pandemic level of production during the year. As the economy picked up, employment also moved up a gear: Finland's average employment rate was 72.3% in 2021, up from 70.7% in 2020. The average unemployment rate was 7.7% in 2021, which is the same as in 2020. In 2021, the number of unemployed persons averaged 212,000.

The Finnish housing market has boomed during the pandemic. Despite the active market situation, housing prices have developed moderately overall, with no sign of general overheating or a price bubble. Regional differences in housing prices remain large, and in parts, the market has continued to diverge even further. In many municipalities, housing prices have either remained level or continued to fall. In 2021, the number of building permits granted and building starts grew significantly from the previous year. During the year, construction of around 48,000 new dwellings was started, and the number of completed dwellings was just over 37,400.

The banking sector has continued to grant credits to households as usual during the pandemic, which has been extremely important in terms of labour mobility and the increasing popularity of remote work, for example. The pandemic has changed housing needs as people have increasingly worked from home. Thanks to the easy monetary policy, pandemic savings and the increased value of investments, many households have been able to purchase a new home.

At the end of December 2021, the stock of housing loans stood at €107.6 billion, and the annual growth rate of the stock was 4.1%. Buy-to-let mortgages accounted for 8.1% of the housing loan stock. Out of all loans of Finnish households at the end of December, consumer credit totalled €16.8 billion and other loans €17.9 billion. The interest expenses of housing loans continued to remain moderate.

At the end of December, the stock of loans to housing corporations stood at €39.5 billion. Finnish limited liability housing companies have certain unique characteristics that are also reflected in the credit statistics. In other countries, increased housing construction typically results in the corporate loan portfolio growing. In international statistics, Finland's housing corporation loans are included in the corporate loan portfolio, but in national statistics, corporate loans and housing company loans are separate categories, which means that increased construction does not have the same effect on the corporate loan portfolio.

In general, loans taken out to construct a residential building in Finland are recorded on the establishing housing company's balance sheet. The loan portfolio of housing companies therefore grows as a direct result of new construction. The term 'housing corporation' encompasses all corporation forms of housing units, not just limited-liability housing companies. Some of the housing corporation loan volume is held by households, some by housing investment funds and other housing investors, and some by companies. At the end of 2021, the average interest rate was 0.78% in housing loans and 0.91% in buy-to-let mortgages.

The Finnish banking sector's liquidity improved in 2021. The average liquidity coverage ratio (LCR) stood at 177% at the end of 2021 (171% in 2020). When the pandemic spread, LCR ratios and reserves grew rapidly throughout Europe as banks prepared for an increase in the demand of corporate loans and other potential liquidity needs. At the end of 2021, Finnish banks' liquid assets for meeting the LCR requirement totalled €154 billion, more than half of which consisted of central bank reserves. The liquid assets were almost entirely of the highest quality, i.e. level 1 assets.

The Finnish banking sector's net stable funding ratio (NSFR) stood at 117% at the end of 2021, which is well above the 100% requirement but below the EU average. Banks' available stable funding (€506 billion) surpassed the requirement by €74 billion.

The substantial increase in central bank funding has raised the asset encumbrance (AE) ratio of European banks. In Finland, the AE ratio has been at a fairly high level for a long time due to banks' reliance on covered bonds, but it has remained stable. At the end of 2021, the AE ratio stood at 29.3% (29.8% in 2020), which is roughly the same as the EU average.

In planning for their funding activities, Finnish banks have prepared for the potential release of the pandemic build-up of household and corporate deposits when household consumption returns to normal and the investment demand of companies is revived. Strong liquidity buffers, relatively diverse and decentralised funding channels as well as low market funding costs made possible by a solid capital position protect Finnish banks from risks related to a potential decline in deposit funding. A relatively small share of Finnish banks' funding consists of central bank funding, which also reduces the refinancing risk related to the maturity of central bank funding.

Thanks to its solid financial standing and sufficient liquidity reserves, the banking sector has been able to offer its customers flexibility in loan servicing during the pandemic, which in turn has helped promote Finland's recovery from the crisis. Banks have also continued to offer new loans to their customers. Regulation has not supported these measures in all respects, but the banking sector and the authorities have reached a good enough mutual understanding of the necessity of the measures. All in all, the mutual efforts of various different parties have allowed the Finnish economy to come out well from the coronavirus crisis.

France

In 2021, the activity in France rebounded sharply: GDP increased by 6.8%, after -7.9% in 2020 and +1.9% in 2019. Although the average level of annual GDP was 1.7% below the average level for 2019, quarterly GDP returned to its pre-crisis level in the third quarter of 2021 and clearly exceeded it in the fourth quarter (+0.7% compared with the fourth quarter of 2019). The output of the various industries and the components of demand rebounded, albeit with important differences in intensity. Furthermore, with the strong recovery in activity, labour income contributed to the dynamism of household disposable income. Thus, despite rising prices, household purchasing power per consumption unit increased by 1.9%. With the rebound in consumption spending, the savings rate decreased but remained at a historically high level, at 18.7%. The economic recovery boosted firms' results, with their margin rate recovering by 2.4 points to 34.2%, after a moderate decline in 2020 (-1,6 points).

In this context, French banks have played a key role in sustaining the momentum of the recovery. The banking sector is one of France's six main economic assets, according to the OECD. As of January 2022, the French banking industry counted 334 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 3.9% of total value added in France in 2021, of which approximately 60% for the banking industry. The banking industry employed 350,400 people at the end of 2021 – accounting for more than 20% of the sector's workforce in the euro area – and recruited 40,300 people in 2021. Their network of bank branches providing access to banking services and cash is among the densest in Europe (almost one out of three bank branches in the eurozone is in France).

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 16.1% at the end of 2021 (vs. 15,5% for the euro area banks).

The six largest French banking groups, which operate according to the 'universal banking' diversified model, posted solid performances in all their business lines in 2021 - supported by the economic rebound and a positive jaws effect. Total net banking income amounted €162.4 billion (up 9.9% compared to 2020) and total group net income reached €33.1 billion.

French banks continue to play their full role in financing the economy, providing a robust supply of credit. At the end of December 2021, outstanding loans to businesses and households stood at €2,876 billion, up 4.7% year-on-year.

More specifically, bank loans to businesses continued to grow strongly over the year, with outstanding loans up 3.6% to €1,242 billion. Investment loans were up sharply (outstanding loans of €852 billion, up 5.6% year-on-year), supporting projects and companies' drive to become more competitive. Outstanding treasury loans amounted to €320 billion.

Loans to SMEs accounted for 43% of total loans granted to businesses in December 2021 and rose by 3.0% year-on-year. Access to credit remains high: 96% of SMEs investment loans and 90% of cash credits applications were accepted in the fourth quarter of 2021.

French banks also actively finance French consumers. Outstanding household loans reached €1,439 billion at the end of December 2021, up 5.9% year-on-year. Most household loans were housing loans, representing €1,215 billion (up 6.4% year-on-year).

Lending activity remains both dynamic and sound. The level of non-performing loans is very low (1.9% at the end of December 2021) as the cost of risk (as a proportion of average total assets it declined from 0.4% in 2009 to 0.1% in 2021).

Diversification of corporate financing is developing in France. Markets account for 36% of corporate financing, compared with 30% in 2009. French banks also have a large and diversified investment banking activity.

Furthermore, French banks' investments, innovation, and leading role in the fintech ecosystem make them the natural leaders of the digital financial movement in France. 95% of French people consult their bank's website or use their banking app, according to the study FBF/IFOP conducted in 2021. Moreover, the health crisis has strengthened the use of contactless payment: 6.3 billion transactions in 2021 (after 4.6 billion in 2020) accounting for 56% of card transactions in retail stores.

Finally, French banks are firmly committed to the fight against climate change. They have rolled out powerful and wide-ranging measures for several years now to reduce their exposure to the most greenhouse gas-emitting energies and accelerate the financing of renewable energies and green and sustainable activities. Their commitment is concrete, as demonstrated by the figures. Loans to the coal sector now make up a marginal share of their balance sheets (€2 billion, i.e. 0.02% of their total balance sheet), whereas renewable energy loan outstanding accounted for more than €42 billion in 2021, including €14 billion in new flows.

Germany

The German economy is moving in a very challenging environment. The risks and stress factors have increased further in the course of 2022. Above all, the energy crisis that has developed as a result of the Russian war of aggression on Ukraine and the extraordinarily high inflation rate are fuelling uncertainty. Added to this are the major challenges posed by the transformation of the economy towards sustainability and a readjustment of cross-border production and supply chains to strengthen resilience to crises.

The ECB has reacted to the rising inflation rates. In July 2022, it ended the eight-year phase of the negative interest rate policy. Further, particularly strong interest rate steps followed in September and October 2022.

German banks continue to be quite robust in this very difficult macroeconomic environment. Taken in itself, the end of the negative interest rate policy improves earnings prospects. However, the strong and rapid increase in capital and money market interest rates is associated with certain risks for the value of assets. In addition, significantly increased costs - especially material costs driven by high inflation - are weighing on banks, and the risk of loan value adjustments is rising with the deteriorating economic outlook.

Even if, from today's perspective, GDP in Germany is likely to decline somewhat in 2023 - the European Commission is assuming an annual average decline of 0.6% - the situation of German banks should remain robust. The equity base has been expanded strongly in recent years and provides a solid buffer. In the lending business, lending to companies and the self-employed has with €1,038 billion in 2021 increased compared to the previous year (+3.4%). The high interest rates and the weak economic development are likely to dampen demand for real estate and "classic" corporate loans in the coming months. However, this is offset by a growing need for financing for the climate-neutral restructuring of the economy and for infrastructure projects.

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 around 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 just over a quarter of total banks' assets. There are currently 371 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 773 cooperative banks (Volks- und Raiffeisenbanken) and one central cooperative bank (DZ Bank AG). It accounts for 53% of all institutions by number and around 12% 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 60% 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.

Greece

The Greek economy showed remarkable progress and resilience in 2021 despite the looming uncertainty. Thus, at the rise of 2022, everyone believed that the problems caused by the pandemic during the years 2020-2021 would have come to an end and that 2022 would be a year of recovery and strong growth. However, 2022 turned out to be an unexpectedly difficult year: Russia's invasion of Ukraine overturned all forecasts and caused serious complications to the financial and economic stability globally. Inflation that had started to rise since 2021 skyrocketed in 2022, as the war in Ukraine exacerbated pressures in the prices of energy and natural resources, thereby creating an explosive mix of negative effects in the real sector of the economy and mainly in the household budget.

During 2021, the Greek GDP grew by 8.4% year-on-year, having regained its pre-pandemic level already in the third quarter of 2021, driven mainly by domestic demand and exports of services due to the better-than-expected tourist season. Inflation started to rise in the course of the year due to imbalances between supply and demand; main factors include severe disruptions in the supply chains created during the pandemic, the highly accommodative fiscal and monetary policies aimed to support employment and output during the lockdown periods, accumulated savings, repressed demand and post-pandemic euphoria that resulted in a sharp increase in demand for goods and services. The surge in consumer prices is an additional source of uncertainty for the economy at large. Pandemic emergency support measures of €16bn were implemented in 2021; although these were largely phased out by 2022, they were supplemented by further measures (mainly subsidies to energy users) the government introduced to help households and firms cope with increases in energy bills due to the energy crisis. The general government deficit was 7.5% of GDP in 2021, but is expected to decrease to 4.1% in 2022. Labour market developments seem to remain favourable and the unemployment rate continued its decline to 14.7% in 2021, from 17.2% in 2020 and further lower in 2022, reaching its lowest level in more than a decade.

Regarding the characteristics of the Greek banking system, the number of the domestic credit institutions was drastically reduced from 35 in 2009 to fifteen 15 in 2021, of which nine are commercial and six cooperative banks. Of the nine commercial banks, four are deemed “systemically significant credit institutions”, and, post consolidation, control ca. 97% of the banking assets (€328 billion). Nineteen foreign bank branches, although present in Greece, have insignificant market share. The total number of bank branches was 1,560 in 2021 (2019: 1,834), while the number of employees was 30,998 (2019: 36,727). Adapting to the new digital era, Greek banks have invested in expanding their e-banking channels and their range of services provided online. The subsequent downsizing of their traditional channels was achieved exclusively through Voluntary Exit Schemes (VES) and natural attrition. The progress in the digital transformation of the Greek economy and the Greek banking system is reflected in the electronic payments data: The number of payments involving debit, credit or prepaid cards increased by almost 50% in two years, reaching 1,569 millio in 2021 from 1,064 millio in 2019, with the transaction volume increasing to €47.8 billion in 2021 from €38.2 billion in 2019. Meanwhile, the size of the POS network has increased by 4% since 2019, reaching 775,482 terminals in 2021 and 254% since 2015. The size of the ATM network has also expanded, increasing to 5,787 in 2021 from 5,702 in 2019.

In the banking sector, 2021 can certainly be characterized by the significant reduction of non-performing loans. NPL reduction was achieved mainly through securitisations and transfers to international investors. The stock of non-performing loans declined further in 2021, mostly through loan sales of €27.5 billion under the Hellenic Asset Protection Scheme. This has led to an improvement in bank asset quality, reducing risk costs and widening profit margins. Greek banks reduced their stock of NPLs to €18.4 billion at end December 2021, down from a peak of €107.2 billion in March 2016, aiming to reduce further the stock of

NPEs to Euro Area average by end-2023. However, banks' low operating profitability and the need for higher provisioning for credit risk affected their capital adequacy, with the consolidated Common Equity Tier 1 (CET1) ratio falling to 12.6% in December 2021, from 15% in December 2020, and Total Capital Ratio (TCR) to 15.2% from 16.6%, respectively. Finally, private sector deposits rose to €180 billion in 2021 from €135 billion in 2018, while private sector gross loans amounted to €110 billion in 2021 from €170 billion in 2018.

As far as the MREL capacity is concerned, Greek banks have met the 1/1/2022 MREL binding target set by the SRB through issuing MREL eligible instruments and by achieving organic profitability. However, taking under consideration the current macroeconomic environment and financial market conditions, a short-term challenge on Greek banks' MREL issuance plans might be posed as the yields of MREL eligible instruments have moved up significantly.

The continued recovery of the Greek economy presupposes strong financing of the real economy and an active involvement of the banking sector. Greece has been allocated about €30.5 billion from the Recovery and Resilience Facility (RRF) in grants and loans, making it the largest RRF beneficiary (16.8% of its 2021 GDP). These funds are expected to play a significant role in supporting and financing of the Greek economy in the next five years, with the banks co-financing and also assessing investment plans in the loans' pillar of RRF. The timely implementation of the projects and reforms of the National Recovery and Resilience Plan (Greece 2.0) is a prerequisite for achieving strong, sustainable growth in the following years. Having improved their asset quality and increased their liquidity, the Greek banks are in an even better position to finance the upcoming investment projects and keep supporting the transition of the Greek economy towards an investment-based, export-oriented economic model.

Hungary

In 2021, compared to a moderate year-on-year decline in the first quarter, GDP growth in the second quarter accelerated fast, while in the third and fourth quarters it was significant, bringing total GDP growth in 2021 to 7.1%, four percent above the pre-pandemic level. Almost all sectors have contributed to growth, albeit at varying degrees over the different quarters. Annual growth in industrial production slowed from a higher base a year ago. The construction sector delivered an outstanding performance, contributing significantly to growth. Retail sales continued to grow, with annual growth accelerating slightly. Hospitality and tourism, while not yet fully recovered, showed particularly strong growth at the end of the year, due to the low base of a year earlier. the performance of transport services also accelerated. Finance, insurance, information and communication, real estate services, technical, scientific, professional and administrative services, and leisure services also showed substantial growth. As for consumption, there has been a rebound, partly due to base effects and partly to the pension premium, while investment continued to deliver a strong performance, reflecting the robust achievement of the construction sector. The external trade balance was less of a drag on growth, with a smaller deterioration in the trading of goods and a significant improvement in the balance of services, driven by the recovery in tourism.

Following a steady decline over the year, the rate of unemployment fell to 3.7% by the fourth quarter from 4.1% a year earlier. The rate of unemployment averaged at 4% in 2021.

The annual rate of inflation rose from 2.7% in January to 7.4% in December. The rise in inflation was mainly driven by higher fuel prices and the increase in excise duties on tobacco products, but, especially towards the end of the period, the inflationary effects of the surge in demand and slower adjustment of supply, as well as the broad and steep increase in commodity prices, were also starting to emerge. Core inflation and tax-adjusted core inflation rose to 6.4% from above 3% in January, reflecting intensifying and widening inflationary pressures. In 2021, inflation averaged 5.1%, core inflation 3.9% and tax-adjusted core inflation also 3.9%.

In order to prevent secondary effects, caused by a material increase in inflationary risks, the Hungarian Central Bank launched an interest rate hike cycle. It raised the base rate from 0.6% in January to 2.4% in December, and also raised the overnight deposit rate to 2.4% and the overnight and one-week secured loan rates to 4.4%. In addition, in December it phased out the government bond purchase programme, the Bonds for Growth Programme and the swap tenders providing HUF liquidity.

The impact of measures to combat the pandemic and the economic crisis, combined with the grants aimed at stimulating investment, resulted in a deficit amounted to 7.1% of GDP in the central budget in 2021. The sovereign debt ratio reduced to 78.2% in 2021 from 80% in 2020.

At the end of 2021, the Hungarian banking sector consisted of 40 institutions. Among them are 21 commercial banks, 11 specialised credit institutions (mortgage banks, building societies, development and trade finance banks) and eight foreign bank branches. The number of branches and employees in the banking sector practically did not change in 2021 i.e. there were 1,851 branches and approximately 40 thousand employees in it. For the country's population of 9.8 million in 2021, there were more than 10,6 million bank accounts, almost 9.9 million payment cards (out of which 9.1 million were contactless), 4,919 ATMs, 252,616 POS physical terminals plus almost 35,000 virtual ones.

At the end of 2021 over 61% of the Hungarian banking sector is under local control. In commercial banking sector (excluding development bank and EXIM bank), the state had majority only in one upper mid-size bank temporarily, otherwise the state had negligible ownership in the sector.

The value of the banking sector's total balance sheet increased by 15.86% compared to the previous year. The capital position of the Hungarian banking sector was improving in 2021. The CET 1 capital adequacy ratio (CAR) almost reached 19%, while the total CAR was at 21%. In 2021, profits of the Hungarian institutions more than doubled as compared to 2020 and was 6,7% higher than in 2019 in terms of HUF. Before tax return on equity was at 11.4%.

Under the circumstances of COVID-19 pandemic the Hungarian domestic instant payment system (HIPS) continued its smooth operation since its launch as of 2nd March 2020. Since September 2021 HIPS enhanced its services with processing RtP and normal credit transfer batches, as well. In 2021 HIPS has cleared and settled 377 million instant transactions amounted to 2700 billion HUF. The lion share i.e. 96% of transactions have been credited in the beneficiaries' accounts in two seconds i.e. in a shorter period of time than the central bank's decree requires, namely in five seconds.

Electronic payments increased dynamically further in 2021 it accounted 1,8 billion payment transactions. The payment card accepting POS network's 98% support contactless card acceptance. In 2021 from the 1,8 (1.5) billion electronic payments more than 1,2 billion were executed by payments cards in value 10,000 billion HUF. The number of transactions via internet were 62 million in value 802 billion HUF while the number of mobile wallets reached 1 million.

The value of loans granted to non MFI sectors increased by 7.6% in 2021 in terms of HUF. 50.1% of the concerning loan portfolio is provided to non-financial corporates and 36.6% to household sector. The deposit value of the banking sector – excluding interbank transactions - remarkably increased in 2021 (by 16.4%) in total, corporate and household contributed positively, altogether by 16.7%.

The KÁT feed-in-tariff system in Hungary, which was available for new RES investments for more than 10 years until the end of 2016, was a calculable and reliable system supporting the financing of renewable projects and was very favourable for RES investors. However, in 2017 a new operative incentive scheme called METÁR was introduced that is a bit stricter, more competitive, and provides a tender-based premium (contract for difference) type subsidy (over the reference market price) to RES investors (except for household-sized power plants where the net metering system is applicable). These days in Hungary, the primary trend is the hegemony of solar projects. The transition from KÁT Regime to METÁR generated a rush for KÁT licensing before its closure. More than 2,800 KÁT-eligible power plant licenses (over 2,000MW combined) had been submitted by the end of 2016. The most popular RES projects were solar power plants with 0.5 MW capacity under the KÁT with 25 years mandatory takeover period. From the altogether 2900 MW KÁT PV portfolio, ~1900 MW has been built or will be built by the end of 2022. The remaining ~1000 MW is expected to be built in 2023–2024, some of them not yet financed. These are mainly bigger (20-50 MW) PV projects.

Iceland

The economy started rising in 2021, after a 6.8% contraction in GDP in 2020 the economy rose by 4.4% in 2021. GDP forecasts indicate that the growth will be 6.2% in 2022, driven by rebound tourism and increased private consumption. Unemployment has gone considerably down, was at 4.4% at year end in 2021 and has continued to decline. Inflation on the other hand is on the rise and was at 5.1% year-on-year in year-end 2021 but has risen considerably in 2022.

The commercial banking sector consists of four universal banks and five 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.

The banking sector currently has around 2,400 employees working in 70 branches around Iceland. Commercial banks and savings banks have closed a considerable number of service points and reduced staff since 2012 with increased emphasis on electronic self-service solutions. Electronic payments, services and signatures have been on the rise over the past years and temporarily reduced services in branches during the pandemic have accelerated the process with online services and interactions surpassing traditional ones.

Since October 2015, ownership of two of the three major banks has been primarily in the hands of the Icelandic government. The government has taken steps in deleveraging its holdings in the financial system. One bank is 98.2% government owned, the Minister of Finance and Economic Affairs has begun the process of selling the governments holding in the second bank. An initial public offering was held in June 2021 and 35% of the governments share was sold. All shares in the bank were listed on the stock exchange in Reykjavík thereafter. An additional 22.5% was sold to professional investors and eligible counterparties in March 2022. 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.

Total assets of DMB's amount to ISK 4,700 billion, the equivalent to around 145% of GDP in 2021. The asset base is predominately domestic: total domestic assets are ISK 4,272 billion or 91% of total assets. Total domestic loans in the banking sector amount to ISK 3,464 billion. The banks are predominantly funded by domestic deposits which amount to ISK 2,378 billion.

DMB lending grew by 9% at year-end in 2021. Lending to households increased significantly over the course of 2021. Twelve-month growth was around 22% at year-end. It stems almost entirely from increased mortgage lending, as the housing market has been lively, fuelled by a significant drop in mortgage interest rates and a modestly leveraged household sector. Corporate lending remained broadly flat in 2021. The growth rate had slowed in 2019 and 2020, alongside declining economic activity and higher returns required by banks on corporate loans. Lending to corporates has picked up in 2022.

The Icelandic banks are all contributing to sustainability in Iceland. All have high ESG ratings and are moving towards sustainable financing. The banks have a broad spectrum of green products e.g. green bonds, green mortgage lending, green car financing and green deposits. This subject will continue to be a focus point for the financial sector in the coming years.

The Icelandic banks are all involved in projects to increase public awareness on the importance of financial literacy. The Icelandic Financial Services Association 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 overall performance of the three systemically important banks had deteriorated in recent years. The banks' return on equity was positive by 4.6% in 2020, roughly the same as in 2019. The reduction in returns in both 2019 and 2020 is due in large part to negative returns on discontinued operations and Covid-19 related provisions for loan impairment. In 2021 the return on equity rose to 11.9%, due to increased activity and reversal in loan impairments.

The commercial banks in Iceland were well prepared for the operating difficulties brought on by the COVID-19 pandemic thanks to a strong capital and liquidity position, which is well above the levels required. Although new challenging market conditions have risen in the last year the economy has started to rise and the banks are showing improvements in ROE.

Ireland

Ireland's economy posted another solid performance in 2021, as the country began to recover from the impact of the UK's departure from the European Union (Brexit) and the Covid-19 pandemic, with gross domestic product (GDP) up 13.6% year-on-year in volume terms. However, there was a clear split between the domestic economy where personal consumption rose by only 4.6% year on year and international trade, where exports rose by 14.1%.

Unemployment fell from 5.9% by Q4 2020 to 4.9% a year later and gross household savings remained high at 24.8% of total disposable income in 2020 (down slightly from 25.9% in 2020).

There were 51 banks operating in Ireland at the end of 2021. These included 22 credit institutions authorised in Ireland (of which five were covered bond banks) and 29 branches of banks authorised in other European Economic Area countries that were operating in Ireland. Fourteen 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 fallen slightly in recent years, the number of credit unions - not-for-profit, member-owned financial cooperatives funded primarily by member deposits – fell from 292 to 214 between September 2016 and September 2021 as credit unions consolidated.

The Irish government has majority stakes in two banking groups (a 70% stake in Allied Irish Banks and 75% in permanent tsb) and a minority stake in one (8% in Bank of Ireland). Both of the main foreign-owned retail banks, KBC Bank Ireland and Ulster Bank Ireland, announced plans to exit the Irish market. The five main banks operated 524 branches and almost 1,800 ATMs for cash withdrawal nationwide by the end of 2021. Independent companies have increased their ATM fleets in Ireland in recent years, mainly through acquisitions of bank ATMs and accounted for most of the ATMs in Ireland by the end of 2021.

Card payment volumes and values rose by 24.3% and 18%, respectively, in 2021 to almost 1.8 billion transactions valued at €70.7 billion. At the point of sale, contactless payments accounted for more than half (52%) of all card payments in 2021, up from 25% in 2017. The value of ATM cash withdrawals fell by 4.6% to €12.7 billion.

The number of cheque payments fell by 14.7% to 20 million while the number of online and mobile banking payments grew by 10.4% over the same period to 131 million.

BPFI analysis shows that new residential mortgage lending rose by 25.1% year-on-year to almost €10.5 billion, the highest level since 2008, including €1.6 billion of re-mortgaging with a new lender or switching. The first-time buyer (FTB) segment grew by 15.4% year on year to almost €5.5 billion, the highest level since 2007.

Fixed-rate mortgages accounted for a growing share of the mortgage market, representing 44.1% of outstanding credit institution housing loans at the end of 2021, up from 36.7% a year earlier. Some lenders provide discounted fixed interest rates on mortgages secured on residential properties with higher energy efficiency ratings.

About half of the €36.4 billion outstanding credit to Irish resident private-sector enterprises (excluding financial intermediation) was advanced to small and medium-sized enterprises (SMEs) at the end of 2021. Real estate activities accounted for about 30% of non-financial credit. The value of core SME credit (excluding financial and real estate sectors) fell as businesses continued to deleverage, falling from €12.8 billion at the end of 2020 to €12.7 billion a year later.

Gross new lending to core SMEs, fell slightly to €2.9 billion. Primary industries, such as agriculture, and wholesale and retail trade and repairs accounted for €757 million and €500 million, respectively, of gross new lending in 2021.

The government-owned Strategic Banking Corporation of Ireland (SBCI) provides wholesale funding and risk-sharing supports to banks and non-bank financial institutions for on-lending to SMEs. About €819 million in loans were drawn down up to the end of 2021, mainly under two SBCI schemes: the Future Growth Loan Scheme (FGLS) for financing long-term investment and the Credit Guarantee Scheme (CGS), which supported loans for businesses affected by Covid-19.

Credit institutions had outstanding housing loans of €86.9 billion at the end of 2021. When non-banks are included the value of mortgage debt outstanding contracted by 1% in 2021 to €112.1 billion. Non-mortgage personal credit outstanding fell by 1.3% year on year to €12 billion by the end of 2021.

The growth in credit institution deposits continued in 2021 with Irish private sector deposits increasing by 11.6% year on year to €286 billion, with households accounting for almost €141 billion. Much of the growth came from overnight deposits, which represented 87% of deposits.

An Post, the State-owned postal service operator, managed a further €24.1 billion in national savings schemes and post office savings accounts on behalf of the national treasury.

Resident credit institutions in Ireland, including credit unions, employed more than 38,900 people at the end of 2021, according to the European Central Bank. Banks paid almost €2.8 billion in wages and salaries in 2021, of which banks mainly active in international markets paid nearly €0.9 billion. Banks also paid some €0.4 billion in corporation tax. Since 2014, banks have also paid an annual levy of about €150 million.

Gross value added (GVA) by the banking sector was estimated at €5.2 billion in 2020, according to the Central Statistics Office. Resident banks reported combined losses after interest and tax of more than €2.3 billion in 2021 compared with a loss of almost €1.5 billion in 2020.

Ireland's exports of financial services (excluding insurance and pension services) rose by 14% in 2021, to €22.2 billion. Ireland was also the sixth largest exporter of financial services in the world in 2021, according to UNCTAD, overtaking Hong Kong and Switzerland since 2019.

Total credit institution balance sheet assets rose to more than €764 billion at the end of 2021. In terms of liabilities, deposits from Irish private-sector residents remained the key source of funding and increased by €31 billion during 2021.

Italy

In 2021, the global pandemic situation improved considerably, thanks above all to the progress in the vaccination campaigns, which was more rapid in the advanced countries. Italy's GDP grew by 6.7%, making up for two-thirds of the exceptional contraction that occurred in 2020 due to the health crisis. However, at the start of 2022, the rapid rise in new cases of COVID-19 together with the Russian invasion of Ukraine had significant repercussions for the Italian economy. GDP fell by 0.1% in the first quarter, but then rose to 1.1% in the second quarter and eventually settled at +0.5% in the third. According to the latest consensus forecast, GDP is expected to grow by 3.5% in 2022.

Regarding the banking sector, in 2021 the improvement in the macroeconomic situation, together with the support measures introduced by the Government in response to the pandemic, had a positive impact on Italian banks' balance sheets in 2021.

Bank lending slowed as business demand for loans reduced, mainly for the slowdown of loans to non-financial corporations as a result of the high levels of accumulated liquidity and of an increase in cash flows associated with the economic recovery. Lending to households instead accelerated, driven by the growth in loans for house purchase, while consumer credit growth remained weak. In December 2021, loans to non-financial corporations and households posted a 2.6% year-on-year increase. In the first nine months of 2022, lending increased at a faster pace. The most recent data, updated to September 2022, show that loans to non-financial corporations and households grew at a rate of 4.3% on an annual basis. In detail, loans to non-financial corporations grew by 4.4% and loans to households by 4.2%.

In 2021 the Italian banks' asset quality remains high, thanks to the economic recovery and the support measures for households and firms. The flow of new non-performing loans (NPLs) in proportion to total performing loans remained low and the disposal of NPLs was still high. At the end of 2021, the ratio of new NPLs to performing was 1.3% slightly higher than in 2020 (1.1%) and the disposal was €23 billion in 2021 overall. This led to a reduction in the stocks of net NPLs that amounted to €40 billion, down by about €11 billion on the previous year (€84 billion gross, down by €20 billion). The ratio of net non-performing loans to total loans fell to 1.7% (2.2% in 2020), below the level observed before the onset of the global financial crisis and broadly in line with the average for the main euro-area countries.

Total funding continued to rise, although at a slower pace than in 2020 due to the slowdown in deposit growth. In 2021 total funding (resident customers deposits and bonds) grew about 5.6% year-on-year (+8.0% in 2020), driven by deposits (+6.9% in 2020 vs +10.5% in 2019), while bonds continue to decline although at a slower pace (-4.4% in 2020 vs -8.3% in 2019). The latest figures (updated to September 2021) indicate a further slowdown of total funding from customers (+1.7% year-on-year) of which deposits were about €1.870 billion while bonds were €204 billion respectively up by 2.3% and down by -3.9% year-on-year.

In 2021, the capital adequacy of Italian banks remained at levels similar to those recorded in the previous year. In December, the common equity tier 1 (CET1) ratio of the entire banking sector stood at 15.3% about 20 basis points lower than end-2020 (15.3% for Significant Banks and 17.9% for Less Significant Banks).

Banks' profitability rose, returning to pre-pandemic levels, mainly thanks to a reduction in the flow of loan loss provisions that had been very high in 2020. The return on equity (ROE), net of extraordinary components, increased from 2.0 to 6.0% (5.4% for Significant Banks and 8.8% for Less Significant Banks).

Looking ahead, the phasing out of public support measures, the increasing inflation, the expected slowdown of economic activity and, above all, the developments in the war in Ukraine, are meaningful sources of uncertainty for banks' profitability and asset quality. However, regarding the Russian-Ukrainian

conflict, it should be noted that at the end of 2021, the Italian banking sector's direct exposure towards issuers resident in countries involved in the conflict or affected by the related economic sanctions (Russia, Belarus and Ukraine) was limited.

The restructuring plans and the consolidation of the Italian banking sector, started in past years, continued in 2021. At the end of the year, Italy's banking industry (comprising bank holding groups and independent banks) consisted of 100 active players. Banks have also continued to reorganize the distribution network by cutting the number of branches. In 2021 the number of branches fell by 7.8% (to 21,650) and the number of employees by 2.0% (to 272,291), continuing the trend since 2008. Following the streamlining of the branch network, the average number of bank branches per 100,000 inhabitants decreased by about 37% compared with 2008.

Due to the acceleration of the digitalisation of banking customers, banks continued to invest in the development of projects connected to financial innovations applied to the provision of financial services. So, there has been robust growth in digital applications and platforms for customer interactions in all segments of the financial sector. In 2021, the share of customers who could access their current accounts through digital channels was 79%, about 29 percentage points higher compared to ten years earlier. In 2021, the share of banks offering loans to households and businesses through digital channels was 44 and 25% respectively.

Latvia

Despite the repeated outbreak of Covid-19 and the restrictions set to reduce morbidity, the gross domestic product (GDP) in 2021 has increased the Latvian economy by 4.7%, significantly exceeding the forecast at the beginning of 2021.

The international credit rating agency S&P Global Ratings (S&P) affirmed Latvia's credit rating at the current high A+ level with a stable outlook. S&P noted that current Latvia's credit rating is underpinned by Latvia's generally effective economic policymaking, its EU and NATO membership, solid external profile, as well as moderate government debt and favorable financing conditions. According to the agency's view, the stable outlook balances the rising macroeconomic risks to Latvia's small and open economy stemming from the Russia-Ukraine conflict against the medium-term growth prospects and strong public balance sheet.

In 2021, 16 banks were operating in Latvia, including 12 credit institutions registered in Latvia, and four branches of credit institutions registered elsewhere in the EU as well as one holding company. The Latvian banking sector is dominated by Nordic banking groups.

Latvian banks lead in digital advancements. Latvia was the first in the euro area to use *SCT Inst payments* – innovative, modern, lightning-fast bank transfers, which are available at any time of the day, including weekends and holidays. More banks have joined the instant payment scheme and in 2021 instant payments have become available more than 90% of banks customers and have become a standard payment method rather than an exclusive service and make up 50.3% of all SEPA payments between banks who have implemented instant payments.

An innovative service – *Proxy Registry "Instant Links"* – is also available, which provides the possibility to make payments, indicating only the beneficiary's mobile phone number, without the account number. The number of participants and transferred funds in Instant Links is increasing each year making it an easy and customer friendly way of making payments.

Contactless payments are preferred by the customers of banks in Latvia which make up 77% out of all payments made by bank-issued cards compared to 69% in 2020.

At the end of 2020, banks had attracted €20.1 billion in deposits, which is 7.1% more than at the end of 2020. Under the influence of high uncertainty and limited consumption opportunities during Covid-19 restrictions, domestic household deposits increased by 15.2%. The total increase in deposits also determined the increase in banking sector assets by €1.0 billion or 4.2%.

Concluding 2021, the total loan portfolio of the banking sector increased by 12.1% compared to 2020. A noticeable increase in lending activity in the domestic household segment. In 2021, the volume of loans issued to domestic customers, compared to 2020, grew by 7.5% or €862 million. This was mainly determined by the growth of the portfolio of loans granted to domestic households (mostly housing loans). The quality of loans shows that, in general, the Latvian banking sector has been resilient to the economic shock caused by Covid-19. The quality of issued loans improved during the year - the proportion of non-performing loans (NPL) gradually decreased, reaching 3.6%, unlikely to pay 2.1%, > 90 overdue – 1.5%.

Total assets of banks have increased by 4.2% compared to 2020 and amount to €25.3 billion in 2021. It is the largest value in the last four-year period. However, the return on equity was 10.2% (EU average – 7.7%) as well as CET1 capital ratio was 23.2% (EU average – 15.7%). The total profit of banks in Latvia in 2021 increased by 94% making €292 million compared to the results of 2020.

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.

The 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 resulted in one of the most effective financial crime prevention systems. Latvia as the first from member states successfully implemented all 40 of the Financial Action Task Force recommendations, as well as introduced a public-private partnership (sharing names, not only typologies) and a fully available register of ultimate beneficial owners (with a few verification mechanisms). Latvia has clear regulations for sanctions implementation and consequently is following not only UN and EU sanctions, but also national sanctions and sanctions determined by a member state of EU or NATO, which significantly affects the interests of the financial and capital market (like U.S. OFAC sanctions), as mandatory by law.

Prohibition for credit institutions and payment institutions to cooperate with high-risk shell companies is in force therefore all accounts in credit institutions of prohibited shell arrangements are either blocked or arrested or closed. Risk-based approach, use of innovative technologies, access to information and public-private partnership are seen as cornerstones in the banking industry.

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 diversified 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 November 2022 despite the pandemic and Russia-Ukraine conflict. In 2021, direct exports of goods by Liechtenstein companies recovered by 22.9% and were at a similar level before pandemic and employment is back on the growth path. The average unemployment rate decreased remarkably to 1.6% (- 0.3%) and is at a comparatively extremely low level.

By the end of 2021, there were 12 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.

Due to its unique position, Liechtenstein is part of the EURO payment area (SEPA), but also affiliated to the Swiss Franc payment systems.

Due to the narrow business model of the Liechtenstein banking sector, the lending business focuses on mortgages, which increased by 2.7% compared to the previous year, and Lombard loans. Total loans are stable around CHF 30.0 billion and amounted to 40.0% 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 increased by 6.5% at CHF 47.6 billion. Households account for less than 30 % of total domestic deposits (CHF 18.4 billion). 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, the so-called Roadmap 2025 with an emphasis on growth through sustainability and digitalisation. LGT is one of the pioneers in the area of sustainability, 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. All three major banks have committed to net-zero with ambitious targets and joined the Net-Zero Banking Alliance (NZBA) in 2021. With regard to digitalisation and blockchain in particular, Liechtenstein has taken on a pioneering role at the national level in that it was one of the first countries in the world to adopt the Trustworthy Technologies Act (TVTg) on 1 January 2020.

A demanding environment encompassing hardly predictable global economic outlook and political disorder in leading countries accompanied with high inflation, volatile financial markets and costly regulation continued to challenge the sector. Even in time of such challenges 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 2021.

The consolidated AuM reached a new peak once again (up 16.2% to CHF 424.6 billion) whereas the growth in Liechtenstein amounts to 11.9% (CHF 200.6 billion). Even more important is the fact that net new money could be attracted, CHF 13.0 billion by Liechtenstein banks and CHF 38.1 billion on a consolidated level. Total balance sheet assets increased to CHF 77.3 billion (up 4.9%).

The result from normal business activity decreased by 21.7% to CHF 238.4 million. This unexpected decline is strongly influenced by a one-time impact.

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 more than 20% and a leverage ratio of around 7%, both at individual and consolidated level. The high average liquidity coverage ratio (LCR) of around 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 22% to Liechtenstein's GDP and 17% to the workforce. The banks continue to be important employers. More than 40 full-time positions were created in 2021. The banking industry employs a total of 2,287 people (full-time equivalents) and offers 56 apprentices an attractive entry into their careers, with a share of women exceeding 50%. With a stake of around 36% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more prominent.

Lithuania

Lithuanian banking sector consisted of 18 banks in 2021, twelve of which held a banking or specialized banking license, and six banks operated as branches of foreign financial institutions. Two specialized banking licenses were issued during 2021, and Revolut Bank, the banking unit of UK-based fintech Revolut, has been granted a full banking license by the European Central Bank (ECB).

The banking sector of Lithuania is dominated by subsidiaries of large Scandinavian banks. The two largest banks, SEB and Swedbank, owned by their parent banks in Sweden, hold 65% of market share. Another stake of 16,1% belongs to Luminor Bank with a headquarter in Estonia, owned by an US private equity fund and a Norwegian bank. The other three banks, AB Šiaulių bankas, UAB Medicinos bankas and Revolut Bank UAB, are significantly smaller in size and belong to groups of local and foreign investors. There are 60 credit unions united by the Lithuanian Central Credit Union and the Joint Central Credit Union. The Lithuanian government has no stake in the banking sector.

In 2021, deposits continued to grow, but at a lower pace than in 2020. Deposits increased by 10.2% and amounted to €35.1 billion at the end of the year (non-financial corporations – an increase of 2.6%; households – 18%). The growth of household deposits can be explained by the uncertainty about the future and prevailing aspirations to accumulate funds for emergencies.

Decreasing uncertainty related to COVID-19 has led to improvements in the quality indicators of business loans and, consequently, of the loan portfolio as a whole. During 2021, the loan portfolio increased by 6.8% to 22.9 billion euros. Household loans, which count for more than 53.7% of banks' loans portfolio, increased mainly due to the active provision of mortgages – an increase of 10.8% compared to 2020. The loan portfolio of non-financial corporations, which counts for 41.1% of the total portfolio, increased by 18.4% over the year. Loans to wholesalers, retailers, real estate and manufacturing companies increased the most.

The Lithuanian banking sector has so far proved its resilience to the effects of the coronavirus crisis and has managed to keep non-performing loans at a low level of 1.23%. This figure is 0.98% lower than the result in 2020.

All banks complied with established prudential standards and requirements. The capital adequacy ratio of Lithuanian banking sector exceeded 23%, which makes Lithuanian banks well capitalized. The decisions of the bank's shareholders to keep almost all the 2020 profit to strengthen the bank's capital contributed to ensuring a banking sector resilience even further.

In 2021, large-scale and well-organised phishing attacks targeted bank customers. According to the Lithuanian Banking Association, during the year, financial fraudsters extorted 10.2 million euros from residents and companies. In order to prevent fraudulent activities, banks took additional measures. An important milestone on the way to a better cooperation between institutions and businesses was the establishment of a the Center of Excellence in Anti-Money Laundering, the first public-private sector partnership in Europe, operating as a separate institution.

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 (92,4% 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 6.9% in 2021 compared to the previous year, a direct result of the health pandemic. Employment grew 3,1% year-on-year, and was up slightly by -1,45% in the financial sector. The Luxembourg financial services workforce is internationally recognised as extremely skilled, multicultural and highly productive. The financial sector is the primary engine of the national economy, contributing [23%] (16.8 billion) of the country's total economic output (73.3 billion) and representing [14%] (64.592) of total employment (458.200). About 76% of the corporate income tax and the municipal business tax stem from the financial sector.

The balance sheet total of banks in Luxembourg is €951,7 billion (+11,95%), and banks have sufficient own funds to face any potential challenges, with a capital ratio of 24,25% (2021), well above the thresholds. Loans increased by 12,73% year-on-year, thanks to the contribution of the retail, private and corporate banking sectors. Deposits increased by 15,4% between 2020 and 2021. 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, attracted by the AAA rating of the country, the extensive financial ecosystem, and the highly qualified international workforce. It is also leveraging these 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 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.

Contributor: Luxembourg Bankers Association - Paul Wilwertz paul.wilwertz@abbl.lu

Malta

In 2020, economic growth experienced a significant downturn in line with most other economies as a result of the impact of COVID-19. Thus, in contrast with the increase of 5.5% registered for 2019, in 2020 real GDP fell by 7.0% mostly as a result of lower net exports; whereas the Euro area registered a 6.6% decrease. As may be expected for a small island-state economy, the economic shocks from the pandemic mostly hit sectors comprising wholesale and retail trade, transportation, and accommodation and food service activities. Moreover, the sector was impacted strongly by travel disruptions during the year, the temporary shutdown of non-essential services and other resultant COVID-19 containment measures. Net exports of goods and services accordingly shed 5.9 percentage points from GDP growth, reflecting a stronger decline in exports than imports (in 2019 this item only shed 0.8 percentage points contribution to GDP).

The seasonally-adjusted unemployment rate published by Eurostat averaged 4.3% in 2020, higher than the average of 3.6% recorded in 2019 but lower than pre-2017 levels.

The large degree of underutilisation of the economy's productive capacity mainly reflects the impact of the COVID-19 pandemic and related restrictive measures on total factor productivity and the labour market. Thus, the contribution of total factor productivity turned negative during the year. Moreover, aggregate labour productivity in Malta declined by 8.2% over the level recorded in 2019 (0.2%).

Meanwhile, COVID-19 had a considerable (negative) impact on general government finances. In the first three quarters of 2020, the general government balance shifted to a deficit (€1.1 billion) when compared with a surplus in the same period a year earlier (€67.1 million). Meanwhile, general government debt as a share of GDP increased (over the 2019 position) by 10.7 percentage points to 52.6%.

Annual inflation based on the Harmonised Index of Consumer Prices (HICP) fell to 0.8% in 2020, from 1.5% in 2019. Notwithstanding this drop, HICP inflation in Malta was above that of 0.3% registered in the euro area, but still significantly below the ECB's inflation target. The Retail Price Index (RPI) shows too that inflation moderated over this period – falling to 0.6%, from 1.6%. The drop in inflation in 2020 extends the downward trend exhibited since mid-2019.

Over the past two decades, the banking sector in Malta has grown from four retail banks serving the local population to 24 (operative) licensed banks as at the end of 2020, 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 62% of the banking sector's total assets of around €40.4 billion are foreign-owned.

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

There are six core domestic banks, whose assets (almost €26 billion) represented 200.6% of Malta's GDP. The core banks employ 83% of the sector's workforce numbering around 5,141 employees. Two of these banks are the local market leaders, holding around 76% of this cohort's assets, and in 2020 operated 66 of the 102 branches/offices 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. Thus, 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. In fact, customer deposits, of which resident deposits comprise the largest proportion, financed almost 83% of the core banks' balance sheets in 2019.

Their loan-to-deposit ratio stood at 58.4% in 2020 (1.1 percentage points lower than in 2019) and well below the euro area average of approximately 96%. On the asset side, exposures to the households' and individuals' sector continue to constitute the largest sector to which the core domestic banks are exposed to. In fact, almost 96% of all exposures by the aggregate banking sector to this economic sector were advanced by the core domestic banks. At the same time, the latter continued to apply prudent lending norms and loan-to-value ratios, as well as a cautious valuation of collateral. Additionally, their investment portfolios 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 18.5%) and high liquidity. On the other hand, several factors - such as lower credit demand, and hence slower loan growth, caused by the pandemic leading to higher placements at a negative rate with the Central Bank; heightened economic uncertainties and market volatility - all contributed to a significant drop in the core domestic banks' profitability. These attributes were again acknowledged in the EU Commission's Country Report Malta 2020.

There are six "non-core domestic banks", whose assets of around €3.1 billion represented 23.8% 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 somewhat as these banks continued to penetrate the domestic market. With a Tier 1 capital adequacy ratio of 19.85%, well in excess of the requirement, these banks have a good shock-absorbing capacity to cover a potential deterioration in asset quality. Considering also their limited exposure to the domestic economy, these banks are not deemed to pose a threat to domestic financial stability.

Twelve internationally-oriented banks, which are mainly subsidiaries and branches of large international institutions, have almost no links to the domestic economy (only 6% of their assets are domestic). Their combined assets of around €11.6 billion represented 90.3% of Malta's GDP. These banks 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 June 2021, Malta made a high-level political commitment to work with the FATF and MONEYVAL to strengthen the effectiveness of its AML/CFT regime and to continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) continuing to demonstrate that beneficial ownership information is accurate and that, where appropriate, effective, proportionate, and dissuasive sanctions, commensurate with the ML/TF risks, are applied to legal persons if information provided is found to be inaccurate; and ensuring that effective, proportionate, and dissuasive sanctions are applied to gatekeepers when they do not comply with their obligations to obtain accurate and up-to-date beneficial ownership information; (2) enhancing the use of the FIU's financial intelligence to support authorities pursuing criminal tax and related money laundering cases, including by clarifying the roles and responsibilities of the Commissioner for Revenue and the FIU; and (3) increasing the focus of the FIU's analysis on these types of offences, to produce intelligence that helps Maltese law enforcement detect and investigate cases in line with Malta's identified ML risks related to tax evasion.

Contributor: Malta Bankers' Association - Karol Gabarretta info@maltabankers.org

The Netherlands

The Dutch economy slides into a recession, following soaring energy prices. The Dutch banking sector plays an important role in the economic functioning of the Netherlands and has it's a relatively large size when compared to the GDP. Its assets accounted for approx. 330% of GDP in 2022. In 2021, about 70,000 people are 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 has been above eurozone average for years. 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 is now 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 youth, payments between them are primarily initiated by mobile applications.

Banks play a vital role in the financing of Dutch companies, especially to SMEs. The total amount of outstanding loans has decreased in recent years, mainly as a consequence of lower demand for loans. In the corona crisis, banks played an important role in providing necessary liquidity to SMEs and larger companies, helped by government guarantees. 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 to mover 80% over the number of clients.

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

Contributor: Dutch Banking Association - Paul van Kempen kempen@nvb.nl

Norway

The Norwegian economy, similar to other countries, improved during 201 after having been negatively affected by the Covid-19 pandemic throughout 2020. However, the emergence of Omicron and increased infection rate at the end of the year caused concerns.

The introduction of several measures since the outbreak of Covid-19 dampened the negative impact on the economy. The economic measures to support the economy and financial system included a reduction of the key policy rate from 1.5% to 0%, reduced level of the countercyclical capital buffer for banks to 1%, introduction of a loan guarantee scheme and a compensation scheme for relevant businesses. During 2021 measures were reduced, and the key policy rate was increased two times to 0,5 % at the end of the year. It was also announced by the Central Bank of Norway that the countercyclical capital buffer was to increase to 2 %, entering into force on 31 December 2022.

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 2021, there were 136 banks operating in Norway. 118 were Norwegian and 18 branches of foreign banks. The market share of the subsidiaries and branches of foreign banks were 24% and 37% in the retail and domestic corporate market, respectively.

The banking market is experiencing consolidation, especially among the savings banks, whereas newly established banks in recent years has been dominated by a focus on consumer credit. During the last decade the number of savings banks has been reduced from 112 to 92 and the number of commercial banks has increased by seven to 22.

At year-end 2021, the aggregate assets of the banking sector (including foreign entities) amounted to around €745 billion. The Norwegian banks' return on equity were 10.7%, an increase of 1.5 percentage points from 2020. The increase in ROE was particularly due to lower losses on lending.

The capital adequacy in Norwegian banks was unchanged at 18.8% in 2021 which is at a peak in a historical perspective. According to the FSA there was a negative effect from an increase in RWA while the positive effect stemmed from an increase in retained earnings. 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 2021, the cost/income ratio in Norwegian banks were on average 44.8%.

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 (almost €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 104% at year-end 2021 (non-consolidated figures from the FSA). The high level is mainly 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 62%. Deposits from customers increased by 9.9% in 2021 and was particularly evident among the largest banks.

Given the VAT exemption for financial services a financial tax was implemented in Norway in 2017. The tax comprises of two elements. The first is a payroll tax of 5% and the second a maintained tax rate at 25 %, i.e. an extra tax of 3 percentage points relative to other corporates (22% tax rate in 2021).

The Norwegian financial sector strongly supports the ESG-agenda and are involved in/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. Furthermore, the Norwegian financial sector has already been issuing green bonds for several years, both covered and unsecured bonds.

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 EU's internal market under the European Economic Area Agreement (EEA). According to this agreement Norway is obliged to implement all EU directives and regulations that relate to financial institutions and markets, such as the CRR/CRD, MiFID, Prospectus Directive, Solvency II etc. This ensures Norwegian financial institutions the same rights and obligations as institutions established within the EU.

Poland

The year 2021, the second year of the Covid-19 global pandemic, was quite kind to both the Polish economy and the Polish banking sector. Thanks to the introduction of a vaccine against this disease, the country's situation has stabilized. The pace of economic growth has clearly increased and the economy recovered from the losses it had suffered a year earlier.

In the banking sector, this progressive stabilization of the economic situation was visible especially in such areas as an increase in lending, a significant improvement in banks' financial results, an increase in their profitability and a significant reduction in the amount of provisions created to cover credit risk. The 2021 was also a period when access to public support funds was definitely limited. For most of the year, banks continued to operate in an environment of very low interest rates, but in the last quarter, due to the dynamic increase in inflation in Poland, the central bank began the process of raising interest rates.

The Polish banking system characterizes by high stability and safety. 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 2021, the Polish financial landscape was made up of 30 commercial banks, 511 cooperative banks and 37 branches of credit institutions. The ownership structure of the Polish banking sector did not change. The number of commercial banks controlled by the Polish capital (including State Treasury) was still 8, whose assets are equal to 41.1% of the sector's total assets, while 42.7% were controlled by foreign entities (0.9% less than in 2020).

Due to the requirements of the CRD IV package, and in reference to national regulations, the most of cooperative banks are members of the two Institutional Protection Schemes. Despite the large number of these institutions, their market share remains stable at the level of 7.2% of the sector's total assets.

In 2021, the Polish banking sector's assets totalled €559.40 billion. The value of the total balance sheet increased by 9.5% comparing to the previous year. However the size of banking sector, relative to GDP, remains quite low in comparison to other EU economies (98.8% at the end of 2021).

The credit portfolio from the non-financial sector plays dominant position in total assets (44.8%). Last year, the growth rate of receivables from this group of entities amounted 5.3% and it was slower than the growth rate of banks' liabilities of this category of customers (8%). In general a similar level of growth rate of banks' claims on households and enterprises was noted (5.6% and 5.8%). However in case of receivables from households the problem of mortgages denominated in foreign currency is still under discussion but this portfolio is diminishing every year. The prudent credit policy have allowed banks to decrease the NPL ratio from 7% to 5.7%.

As mentioned, the year 2021 was characterised by rapid growth of household deposits, which represent 70,2% of all banks' liabilities to the non-financial sector. The ratio of non-financial sector deposits to GDP was estimated at around 60%. However, the share of long-term deposits is limited and term mismatch on the credit and deposit side is significant.

Polish banks registered in 2021 return on equity (ROE) of 3.1% and return on assets (ROA) of 0.24%. Although far from ideal, these results were much better than those achieved in 2020.

The key challenges banks have to face are excessive regulatory and fiscal burdens. E.g. the Polish banking tax which applies to selected financial institutions such as domestic banks and insurance companies, branches of foreign banks and insurance companies operating in Poland (with total assets above EUR 0.9 billion). The tax base comprises the assets of financial institutions. The rate applied to the taxable base is 0.44% annually. In 2021 financial institutions paid around EUR 1 bn as 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 purpose. Banking tax and fees on the BFG account for more than 40% of the operating costs.

The average TCR in the domestic banking sector remained at the stable level. At the end of 2021 the ratio was 19.3%, and the Common Equity Tier 1 and Tier 1 capital ratios were estimated above 17.3%.

The Polish banking sector is very modern, one among the most modern in economy. Banks played very active role in distribution of public support to enterprises and individuals thanks to their modern infrastructure. During the pandemic time the share of non-cash transaction raised significantly. According the report 'Digital Banking Maturity 2022' (covering 304 banks from 41 countries), published by Deloitte in September 2022, Poland took 6th place in the ranking of digitization leaders. Among the entities participating in the survey, as many as six entities from Poland were placed in the top 30 of the list of digital leaders.

Portugal

After a significant contraction of 8.3% in 2020, caused by measures enacted to contain and mitigate the COVID-19 pandemic, the Portuguese economy grew by 5.5% in 2021. This evolution resulted from positive contributions of all components (net of imports), but mainly from exports (2.4 percentage points) and private consumption (1.5 percentage points). The evolution of exports resulted largely from the recovery of the tourism component, which nonetheless remained significantly below the level of 2019 (-45%). The evolution of GDP did not occur homogeneously throughout the year, as output still fell by 4.9% year-on-year in the first quarter due to the lockdown measures implemented in that period.

The Portuguese banking sector has shown to be resilient and well prepared to face the demanding shock caused by the COVID-19 pandemic, particularly in terms of liquidity and solvency and played a critical role in supporting the financing and liquidity needs of the economy.

At the end of 2021, the Portuguese banking system comprised 145 institutions, 61 of which were banks, 81 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 43,726 (0.8% of the country's employment).

Solvency continued to be reinforced and is at historically high levels: CET1 reached 15.5% in 2021 (versus Core Tier 1 stood at 7.4% in 2010). Furthermore, Liquidity indicators registered a very positive evolution: loan-to-deposit ratio stood at 81.1% versus 158.7% in June 2010; liquidity coverage ratio at 259.9%. This comfortable position of the Portuguese banking system in terms of liquidity has allowed it to play an essential role in mitigating the impacts of the COVID-19 crisis on companies and families. Moreover, asset quality improved significantly over the last years and profitability recovered after the pandemic impact, with RoE reaching 5.4% in 2021 (versus 0.5% in 2020), slightly above 2019 level (4.8%).

Total assets rose 8.0% year-on-year, driven by increases in cash and cash claims on central banks (74.7%) and loans to customers (4.1%). Considering the domestic activity, and in terms of the annual growth rate adjusted for securitization and liquidity-providing operations, loans to non-financial corporations (NFC) rose 4.5% to €75.7 billion and loans to households rose 3.7%, mainly driven by the growth in new lending for house purchase.

Asset quality continued to improve on the back of the ambitious strategies implemented to reduce NPL. Since the peak in June 2016, the NPL ratio decreased from 17.9% to 3.7%, with non-performing loans falling by €38.3 billion, and the NPL coverage ratio increased from 43.2% to 52.5%. In 2021, the net NPL ratio stood at 1.8% (-0.4 p.p. year-on-year).

Customer deposits continued to increase significantly in 2021 (+8,7% YoY).

The profitability of the banking system recovered after a significant decrease in 2020, with net income reaching €2,019 billion, versus €459 million in 2020 and €1,852 billion in 2019. This evolution reflected an increase in total operating income, mostly from income from financial operations and net income from services and commissions, but mainly due to a significant decrease in the flow of impairments as a result of lower restrictions related to the pandemic crisis and the economic recovery.

Digital transformation is a priority for Portuguese banks and strong progress has been achieved on this front. Internet banking users have increased from 38.1% in 2010 to 64.2% in 2021, and 69.9% of current accounts have online access. The number of payment cards issued totalled 21.2 million, and the number of online purchases represented 14.5% of card purchases comparing to 7.5% in 2019. Card payments using contactless technology increased significantly and grew by 102% in volume and 131% in value. At the end

of 2021, approximately 44% of purchases in terminals (30% in terms of value) were made using this technology.

The Portuguese government is strongly committed in promoting a more efficient, sustainable and inclusive economy. At the end of 2021, the Climate Basis Law was published, aligning Portuguese policies on climate change with the targets and objectives of the Paris Agreement, the European Green Deal and the European Climate Law. The main goal of the law was to achieve climate neutrality by 2050, but just a few months later, in the COP27, it was announced that Portugal was on track to bring forward the goal of carbon neutrality to 2045, given the progress made regarding public transport, hydrogen and ending coal-fired power stations. The Portuguese National Recovery and Resilience Plan has the commitment to have, at, least 38% of expenditure in investments and reforms supporting climate objectives.

The Portuguese banking system is also embracing the sustainability agenda. In 2021, the Portuguese Banking Association became a supporting institution of the UN-convened Net-Zero Banking Alliance and the first issuance of green bonds and social bonds by Portuguese credit institutions took place.

Romania

In 2021, the Romanian real GDP had an increase by 5.1%, after a contraction by 3.9% in 2020. For this year, the forecasts mention an economic growth between 4.5 - 4.8%.

In December 2021, the annual CPI inflation stood at 5.1%, which was higher than the 2020 level of 2.63%.

Last year, the general budget execution closed with a deficit of 6.8% of the GDP, lower than the one of 2020 when the budget deficit stood at 9.5% of the GDP. During 2021, the balance of payments' current account posted a deficit of almost €17 billion, according to the National Bank of Romania's data, up by 55% compared to the previous year when the deficit stood at about €11 billion.

The programmes supporting employment reached their goal i.e. to curb the effects of the pandemic, so that the unemployment rate continued being low, namely 2.7%.

The progress of the Romanian banking sector despite the healthcare crisis was noteworthy. The robustness of the banking sector, the absorption of customers' liquidity problems, enhancing lending on sustainable basis, the acceleration of digitalization and a strong increase in saving are the strong points of the banking sector in the context of the pandemic.

From the very start of the pandemic, the banking sector's robustness ratios allowed for a proactive approach, namely to absorb customers' problems and enhance lending at pace. The banking sector's solvency ratio stood at 23.32% at the end of December 2021.

For 2021, the data on lending showed an increase in non-government credit by 14.8% to €65.52 billion. Thus, in 2021, we witnessed the increase in financial intermediation up to 27.4% from 26.8% in 2020. Last year, saving advanced by 13.9% to €96.8 billion.

In 2021, the second year of the pandemic when the status of alert was maintained, we saw an increase by 31.5% in the total volume of new loans granted to 110.5 billion *lei* compared to the year 2020, contemplating the population and the companies getting more and more used to the context of the pandemic plus the intensification of business compared to the previous year. The banking sector's assets stood at €130 billion, the advance being of 14.3% compared to 2020, this figure proving the size of the funding granted to the economy. The loans-to-deposit ratio increased to 68.78%.

After almost two years since the start of the Covid-19 pandemic in Romania, across the banking sector, surveys show an increase in the level of financial inclusion and in digitalization. Two out of three Romanians (68%) use all types of banking products and services, according to the survey 'The Romanians' perception of banking sector digitalization' drawn up in December 2020 by the Romanian Institute for Evaluation and Strategy (IRES). In 2017, the level of financial inclusion was estimated by the World Bank at 58% in Romania.

Romania had one of the steepest decreases in its NPL rate among European countries, the drop happening for 7 years in a row, down to 3.35% at the end of December 2021.

At the end of 2021, the Romanian banking sector included 34 credit institutions: three banks with full or majority Romanian state-owned capital, four credit institutions with majority domestic, private capital, 19 banks with majority foreign capital and eight branches of foreign banks. In 2021, about 68.2% of the Romanian banking sector's assets were held by institutions with foreign capital. Contemplating the expansion of digitalization and the optimization of operational expenses, the banks' branch network shrank to 3,695 bank outlets while the number of employees stood at 51,700.

The banking sector's capacity to generate profit was not influenced negatively by the outlook of worsening macroeconomic conditions considering twin deficits. In the banking sector, the return on assets (ROA) and the return on equity (ROE) stood at 1.36% respectively 13.28% at the end of 2021.

After 15 years since the integration into the European Union, Romania is the state ranking last in the EU as regards financial inclusion (68%) and financial intermediation (27.4%); the financial literacy score is 11.2 compared to the average financial literacy score resulting from an OECD survey of 12.7 while the level of economic welfare is one third of the EU average.

In 2021, in Romania, the GDP/capita stood at USD 14,861, a higher figure than the one in 2020 (USD 12,956), according to the World Bank, contemplating the economic recovery registered in 2021.

The Romanian banking industry aims to contribute to the sustainable development of Romania as well of 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 this period of overlapping crises challenging not only Romania but also many states at global level.

Slovakia

The Slovak economy gradually recovered in 2021, as it benefited from the easing of pandemic restrictions and strong private consumptions. However, the increase in energy prices at the end of the year affected the recovery after the pandemic.

With the gradual easing of measures to prevent the pandemic, the Slovak economy recovered very quickly. In 2021, GDP grew by 3%, which was below the EU average. Consumer demand picked up significantly after the pandemic and household consumption became the main driver of the economic recovery. Another main factor for upturn in economic growth was investment. On the other hand, exports had negative impact on GDP as the global chip crisis affected the production of several Slovak companies, especially in the automotive industry.

The central government budget deficit narrowed to 6.15% in 2021 and government debt reached an all-time high of 63.10% of GDP. The unemployment rate in Slovakia remained nearly unchanged at around 6.74%. At the end of the year prices have surged because of the economic recovery and the situation in global markets. The annual inflation rate rose to 3.2% and the main factor of this increase have been energy prices.

The Slovakian banking sector consists of 26 financial institutions with banking licences. Most of them are universal banks, focused on retail and corporate banking. Four of them are specialised banking institutions (three building societies and a state-owned development bank). Most of the banks in Slovakia are controlled by foreign entities (94.1%), 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 62% of the banking assets.

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 984 branches and 17,717 employees, which is slightly fewer than in previous years. On the other hand, the number of transactions on ATM and on POS has been growing for several years. Mobile payments have also become very popular in recent years. For example, the number of mobile transactions increased by more than 100% in 2021.

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 in row, mainly due to credit growth. Retail deposit grew by 6% and corporate deposits increased by 3%.

Retail loans have been dominating the domestic lending market and Slovakia has one of the highest growth rates in housing loans in the eurozone. Last year, growth in housing loans continued to increase (by 11,1%) because of low interest rates, interbank competition, and ongoing growth in housing prices. On the contrary, the outstanding amount of consumer credit declined by more than 6%, due to reduced household consumption and due to macro-prudential measures of central bank. According to the regulator, rapid growth in household indebtedness in the last years could be one of the principal risks to the stability of the Slovak financial sector. In response, the central bank used macro-prudential measures, the main aim of which is to limit the risk from the growth of retail loans. The outstanding amount of corporate loans increased by 4 % year-on-year.

Due to retail credit growth and favourable situation with provisions for impaired loans all banks improved their profitability. In the 2021, banking sector increased profits by 56%, but profitability remained below

the EU median. 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 19.81%, with the lowest individual level at 15.64%.

Banks in Slovakia also 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

Post-pandemic economic rebound in Slovenia was strong and sustained throughout the year 2021. The -4.2% GDP contraction in 2020 was overcome by a solid +8.1% growth in 2021, which was well above the average growth rate of 5.4% in the Euro area. Economic growth in Slovenia was strongly driven by domestic demand, based on both, strong domestic private consumption (+11.6) and investment growth (+12.3). Relatively favorable trends continued also in the export oriented sectors of the economy throughout the year. Employment level reached its historically highest level in 2021, which resulted in only 4.8% unemployment rate and tight labor market conditions. Year on year growth of wages slowed down in Q4/2021 as a consequence of termination of certain epidemic-related bonus payments in the public sector mostly. Inflation rate started to pick up during the year and culminated at year-on-year +4.9% at the end of the year, mostly driven by energy prices but also by prices of services and non-energy goods, where international supply chain problems also represented an important factor.

The fiscal position of the country somewhat deteriorated due to the pandemic related measures effects but on the other hand mitigated by economic revival and growth acceleration in 2021, so consequently government debt ratio stood at 74.7% and the year end and the primary balance of the general government sector amounted to -6.4% of GDP in 2021.

As of year end 2021, there were 11 commercial banks, three savings banks and two branches of foreign banks operating in Slovenian banking sector. Total assets of the banking system increased by 8.1% in 2021 and reached €48.3 billion at the end of the year, which was equivalent to 92.8% of GDP. In 2021 the second largest bank in the market, NKBM d.d., went on sale and the most successful bidder for majority stake in the bank was the Hungarian OTP bank, which already owned SKB bank since 2019. This transaction was an announcement for creation of a major banking group with a market share of about 30% as measured by total assets and a major step towards the consolidation in Slovenian banking sector. However, as of the year end 2021 the deal was still pending, subject to regulatory approval.

While credit growth in Slovenian banks in 2020 mostly stagnated, credit activity was largely restored in 2021, as the average annual growth rate of loans to non-banking sector amounted to +6.3% at the end of the year (+0.2% in 2020). Growth of loans to non-financial corporations was with +6.3% (-1.4% in 2020) slightly stronger than the growth of loans to households, which amounted to +5.1% (+0.1% in 2020). The main driver of the increase in lending activity was the growth in housing loans (+9.1%) which could be attributed to increasingly favorable conditions banks offered to mortgage loans takers. On the other side net consumer loans contracted by -4.6% in 2021, which was primarily attributable to repayments of loans from previous years, when consumer lending was well above average (BoS, Feb. 2022). An interesting phenomenon in 2021 was a sharp increase in loans to non-residents (+21.8%), which was driven by loans extended to large foreign firms in some larger banks in the market. Despite accelerated growth in 2021 loans to non-residents represented only 3.3% of total banking assets, while the share of total loans to non-banking borrowers represented 51.9% of total assets at the year end.

Year 2021 also brought signs of deterioration in the quality of some banking assets. This was the case with exposures to certain service sectors and towards the end of 2021 also with some segments of household loans portfolio. Therefore, the IFRS reclassification of credit exposures resulted in 5.8% share of Stage 2 exposures in December 2021, which was still significantly lower than 8.7% average share of Stage 2 exposures in the EU as of Q3 2021.

A heavy reliance of banks on the deposits, as a major source of funding, continued in 2021, with non-banking deposits representing 77.1% of total liabilities, although their rate of growth decelerated in 2021

and ended up at +6.5% (+10.3% in 2020). Still, households' deposits with its 49.6% share of total liabilities constituted the largest portion of deposits that grew at +6.8% annual rate in 2021 (+10.2% in 2020). With +12% annual rate the growth of non-financial corporations' deposits happened to be much stronger in 2021, but this category of deposits represented only 18.6% in the total structure of the banks' liabilities. Additionally, the proportion of sight deposits strengthened again in 2021, and ended up at 82.5% for the deposits by the non-banking sector and 86.8% for the households' deposits. While deposits represent a reliable, cost effective and relatively stable source of funding, banks need to focus on adequate management of the maturity gap as it represents a potential source of funding risk in future.

Profitability of the banks in Slovenian banking sector, as measured by ROE, improved from 9.6% in 2020 to 11.4% in 2021, but still did not reached the pre-pandemic level of profitability of 12.2% in 2019. Enhanced profitability in 2021 was attributable to the improvement in the economic situation, which was reflected mainly in the net release of impairments and provisions and to a lesser extent in the improved income developments. Namely, the net interest margin in the banking system reached a record low level at just 1.41% at the year end of 2021 and the depletion of the net interest income could not be fully compensated for by a relatively favorable enhancement in banks' non-interest operations.

Despite a slight decline in the average capital adequacy ratio in 2021 the capitalization of Slovenian banks was maintained at relatively high levels. The total capital ratio (consolidated basis) at the year end 2021 amounted to 18.4% (19.1% in the euro area) and common equity Tier 1 ratio to 16.9% (15.8% in the euro area). The capital adequacy ratio in Slovenian banking sector was considerably affected by the accelerated growth of risk-weighted assets, which went up by +32% in the 2014 – 2021 period (on average only +6.2% in the euro area) as a consequence of credit growth, merger of individual banks and predominant use of standardized approach for the credit risk assessment. Nevertheless, the capital position of the Slovenian banking sector remains solid and banks well prepared for challenging times ahead.

Spain

The economic growth in Spain was 5.5% in 2021 based on the strength of consumption and the impetus of tourism and the private investment. Growth came with headline inflation at 3.1% on average (5.8% at the end of the period).

The Spanish labour market has continued to recover, with employment growth substantially outpacing GDP over the past two years, mainly thanks to the short-term work schemes limiting job losses. The unemployment rate declined over 2021 to 13.4% in December.

Fiscal policy in Spain remained accommodative even though the general government deficit fell in 2021 to 6.9% of GDP.

Regarding banking structure, as of December 2021, Spanish banking sector was composed by ten banking groups -one less than the year before- under direct supervision of the SSM, representing more than 90% of the industry, and 48 private banks, 2 saving banks and 61 cooperative banks supervised by Banco de España.

Differences in structure respond to the merger between Liberbank and Unicaja, which took place in June 2021.

In terms of profitability, the return on equity ratio (ROE) was, as of December 2021 and on a consolidated basis, 11.3%, versus minus 3.9% in the previous year, given the good results of the sector in 2021. The consolidated regulatory capital ratio remained at 12.4%, as in the previous year. In addition, the NPL ratio remains also stable at 3%, compared to 2.9% in December 2020.

As far as payments concerns, there is an old tradition for the Spanish banks to the payments' digitalisation process and figures can only confirm that course. Since 2017 more than 97% of the accounts are reachable through the SCTInst SEPA wide SCTInst is already an even alternative for payments, 48% of the total volume of credit transfers processed in the clearing system were SCTInst (additionally all "on-us" transactions, estimated in 50% of the total, are already processed on real time). The instant mobile payment system known as BIZUM, based on a proxy database that obtains clients' IBANs, has enlarged the use cases and the customer base, that has reached 22Million (over half of the adult population), that remain active (8 out of 10 used it at least once in the last month, and in average, they make 38,5 transactions per year. Daily average for e-commerce transactions through BIZUM have multiplied by 10 in the last year. BIZUM is now being introduced into the physical shops. In parallel, mobile payments represent 17% of the non-remote card payments. In all, contactless payments are over 80% of the card transactions.

In a still cash-based economy as the Spanish one, the usage of cards for daily payments has still experienced a growth of 8% and represent one third of the households' consumption. While ATM transactions have increased in the last year around 13%, cards payments have grown 25% (over 18% in e-commerce) compared to 2020 that experienced the COVID-19 impact.

Sustainable financing in Spain experienced strong progress in 2021. The total of green, social and sustainable bonds and loans in Spain was €46,907 million in 2021, 42% more than the previous year, with new issuers and borrowers, greater diversification of sectors and companies, and products of greater complexity. In concrete, 15 out of every 100 euros financed in the capital market already correspond to the sustainable area.

Green Bonds represented 63.9% of the total volume -almost 2 out of every €3, up to €18,249 million; Sustainable Bonds, 22.9%, up to €6,530 millions; and Social Bonds, 8.8%, up to €2,500 million. In addition, green loans computed close to €18,400 million in 2021, with an increase of 2.2%.

Finally, we may underline that, since the beginning of the crisis, Spanish banks have been part of the solution supporting their clients' overcome difficulties. Not only as a result of the crisis unleashed by COVID19, but also with the war in Ukraine and its effects on the economy, Spanish banks have supported their clients to alleviate the crisis effects, for example, searching for medical supplies, making donations, carrying-out solidarity campaigns, etc. But not only that, but since the beginning of the crisis the banking system has implemented unprecedented economic and financial measures: as of December 2021, mortgage and consumer moratoriums with more than 1,600,000 applications (8.9% of the loan balance); financing with official guarantees with 1,200,000 operations for 140,000 million (90% SMEs); advance payment of pensions and advance of unemployment benefits.

Sweden

The recovery after the pandemic resulted in a strong economic growth from spring 2021 and the rest of the year. GDP increased by 5.1% in 2021. The economy has slowed during 2022 because of extensive disruption of global value chains and the outfall of Russia's war of aggression against Ukraine. This has resulted in high inflation, dwindling asset prices and increasing interest rates. This has left Swedish households increasingly pessimistic about the future.

Unemployment increased slightly to 8.8% in 2021 from 8.3% in 2020. The labour market has remained strong in Sweden after the pandemic even if there are signs of a tighter labour market.

Inflation increased during 2021 and was 3.9 % at year-end compared to 0.5% in 2020. The Riksbank's policy rate was 0% during 2021 despite the increasing inflation at the end of 2021. In October 2022 the policy rate was 1.75% and the inflation was 10.9%.

Government debt decreased by the equivalent of €5.3 billion in 2021 and fell to 36.3% of GDP in 2021 from 39.5% the year before. In comparison the government debt increased by €28.4 billion in 2020.

The four main categories of banks on the Swedish market are Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2021, Sweden had a total of 121 banks, comprising 41 Swedish commercial banks, 33 foreign banks, 45 savings banks and two co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 63 in 2011 to 74 in 2021. The increase is largely explained by credit market institutions that have transformed into commercial banks. Among the commercial banks 33 are foreign banks.

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 were 1,029 bank branches in Sweden in 2021 compared to 1,830 bank branches in 2011. 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 cashless. The banking sector has 41,500 employees in Sweden compared to 99,000 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 normal. According to the ECB, Swedes use non-cash payments to a larger extent than most other Europeans and 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 and instant payments. In Sweden there are 2,304 ATMs and 275,000 card payment terminals.

Paper-based payments such as giro forms, cheques and cash payments have mostly been replaced by electronic alternatives. As an example, the use of different kinds of cards has increased from 1,982 million transactions in 2011 to 3,539 million transactions in 2021.

According to the Riksbank, the Swedish central bank, 92% of Swedish citizens have used a debit card in the past month and 75% have used the Swish mobile payment service. Swish, which was introduced nine years ago and offers real-time account-to-account transfers, has 8.4 million users, corresponding to around 80 percent of the Swedish population.

Household lending increased by 7.0% on an annual basis compared to 5.7% previous year. Increasing house prices during 2021 is an important explanation of this increase. Lending to Swedish non-financial companies increased by 6.8% in 2021 compared to 3.2% 2020.

Deposits account for 32% of the household financial assets in 2021 and is the most common household financial asset, followed by mutual funds, 27%, and shares, 23%.

Sustainable finance is a high priority in Sweden and Swedish banks are focused on financing the increasing number of new planned green projects in Sweden. Initiatives in the area have started by both banks and their clients. Swedish banks also offer specific green financial products, for example green mortgages.

The Swedish banks are important to the Swedish economy and employ 2% of the workforce, account for 4.5% of GDP and pay 10% of the corporate taxes.

The Riksbank has kept the policy rate negative or zero for over seven years. However, in 2022 the Riksbank has increased the policy rate three times to 1.75% in October 2022. 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 since several years.

According to the financial stability report from Finansinspektionen, the resilience among the major banks in Sweden is satisfactory because of among other things high capital buffers and the major banks' strong profitability. Increasing interest rates and Russia's attack on Ukraine means new uncertainty for the economy and the banks after the Covid-19 pandemic. The Swedish banks have so far managed the crisis well.

Switzerland

The financial sector, and particularly the banking sector, is one of the cornerstones of the Swiss economy. Its direct contribution to Switzerland's gross value added is 9.4%. As of year-end 2021, there were 239 banks with 2,451 branches and 6,774 ATMs in Switzerland. In addition, banks in Switzerland dispose of 172 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, 36 stock exchange banks, one Raiffeisenbank and 59 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. The rapid deployment of Covid-19 credits by the Swiss banks in March 2020 was a significant factor to counter the economic downturn caused by the pandemic. The bank's swift response has proven useful also throughout 2021.

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 remain 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%. By the end of 2021, an end of the low rates' regime was not in sight due to the persisting 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 384 FinTech companies. Almost 30% of them are active in the field of Distributed Ledger Technology. In 2021, the Swiss Financial Market Supervisory Authority approved the first independent marketplace for digital assets in the world, the first Swiss DLT-based stock exchange and the first Swiss crypto fund.

Almost half of the CHF 8,830 billion (€8,919 billion) assets currently managed by Swiss banks originated abroad. With a market share of 22% Switzerland is the global leader in the field of cross-border private wealth management business.

The banks' lending business remains key for the economic development of Switzerland, especially for SME which employ around 67% 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 2021 rose moderately to CHF 1,294 billion (€1,307 billion) of which CHF 1,111 billion (€1,122 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 3,587.8 billion in 2021 (€3,624 billion). The economic contribution of banks remains high, since banks are important consumers of goods and services.

Before the Covid-19 pandemic, Switzerland's economy showed continuous growth and a low unemployment rate. In 2020, real gross domestic product (GDP) declined by 2.4, followed by a strong rebound. Compared with those of other countries, the Swiss economy has withstood the COVID-19 pandemic well to date. The protective measures were gradually eased in 2021, leading to a strong economic recovery and a fall in unemployment. By the end of 2021, Swiss economic output had already risen above the level seen in the fourth quarter of 2019. The average unemployment rate for Switzerland in 2021 also has fallen back to pre-pandemic levels at 2.6%.

Alongside the CHF 39.9 billion (€40.4.4 billion) generated by the Swiss banking sector in 2021, the indirect effects create an additional CHF 17.6 billion (€17.8 billion) of value added in other sectors, leading to a total of 8.1% share of Switzerland's gross value added.

In 2021, the financial sector paid CHF 19.9 billion (€20.1 billion) in direct and indirect taxes. Approximately 13% of all tax receipts can be attributed to the financial sector.

In 2021, Swiss banks employed 107,478 people (FTE), of which 90,591 were employed in Switzerland. Most of them are employed at one of the four large banks (25.3%), followed by cantonal banks (20%). The proportion of women employed at Swiss banks stood at 38.3%.

United Kingdom

The COVID-19 pandemic and the subsequent lockdowns across the globe had significant knock-on effects on the UK in 2020, both for the economy and its banking sector. Domestic GDP was €2.18 trillion, down 9.8% from 2019 and the lowest level since 2013. The main drag on UK growth in 2020 was the large contraction in household spending. The uncertainty and cashflow pressure on businesses, as a result of the pandemic, also weighed on investment.

Consumer price inflation in the UK fell sharply with an annual rate of 0.6% reported at the end of 2020. This led inflation to drop further below the Bank of England's 2% monetary target, and compared with 1.3% in 2019. Government support to the hospitality industry through the 'eat out to help out' scheme and temporary VAT reduction, as well as lower fuel and transport costs contributed to pushing inflation down through the latter part of 2020.

In response to the pandemic the Bank of England adopted expansionary monetary policy to support the economy. The official bank rate fell to 0.1% in March 2020 and remained at that level throughout the rest of the year. In addition, the Bank also engaged in further quantitative easing in March, June and November. At the end of 2020 the asset purchase programme stood at £895 billion of which £20 billion was used to purchase corporate bonds and the remainder was UK government bond purchases. The value of sterling decreased during 2020, with its effective exchange rate index 2% lower at the end of the year.

The unemployment rate rose from 3.8% at the end of 2019 to 5.2% in December 2020. Despite the rise in unemployment claims, job losses were limited by the introduction of the government's furlough scheme – the Coronavirus Job Retention Scheme. By the end of 2020 a cumulative 9.9 million people had been supported with furlough. At the end of 2020, the household saving ratio of gross saving to total disposable income increased to 16.3%, a record high since records began in 1963, due to the lack of spending as a consequence of national lockdowns, combined with an effective furlough scheme.

Consumer and business confidence inevitably deteriorated during 2020, with continued uncertainty associated with the impacts of the UK's withdrawal from the EU, in addition to the unpredictable nature of COVID-19. While indicators such as the Purchasing Managers' Indices (PMIs) recovered in mid-2020 with a partial re-opening of the economy during the summer, they resumed their decline with the reintroduction of restrictions in the Autumn.

Payment volumes fell in 2020, to 35.6 billion from around 40 billion in the previous year. This represented an 11% decline – again a consequence of pandemic restrictions limiting opportunities to spend. Consumers were responsible for nearly nine out of every ten payments, the majority of which were made spontaneously. The rise in contactless payment limits from £30 to £45 for single transactions in April 2020 helped increase efficiency in transactions, meanwhile aiding the protection of both workers and consumers due to less necessary interaction amidst the pandemic. Contactless payments accounted for 27% of all payments – an increase of 8 percentage points compared with 2018.

Virtually all the UK population hold a debit card linked to a personal current or deposit account and two-thirds hold a credit card. During the last year, the share of payments made by debit cards increased, accounting for 44% of all UK payments. This is due to the aforementioned changes to contactless usage, and its role as one of the main payment methods for online shopping. The decline in cash usage accelerated in 2020, accounting for 17% of all payments in the UK this year compared with 56% in 2010..

There are more than 370 monetary financial institutions (MFIs) in the UK. Just under half the sector balance sheet (49.7%) is held in GBP, 18.4% in EUR and 31.9% in other currencies. By country of ownership 52% of the sector balance sheet reflects UK ownership, while 14% reflects EU ownership and the remaining 34% reflect institutions owned in the rest of the world. Total balance sheet assets of €9.5 trillion represented the largest banking sector in Europe and the fourth largest worldwide. The regulatory capital ratio of the sector was stable at 21.6% at end of 2020, with Core Equity Tier 1 capital of €506 billion, slightly lower than a year earlier.

MFI credit in the UK accelerated in 2020 – annual growth for private non-financial businesses increased to 9.5% from 3.1% at the end of 2019, while the household sector slowed to 2% from 3.2% at the end of the previous year. Growth across the household sector was mixed, with annual secured lending growth slightly down at 3%, credit card lending contracted sharply, by 17.6% and other unsecured household credit (personal loans and overdrafts) also contracted by 8.7%. Deposits held by non-financial businesses and households saw significant growth in 2020. Households' deposits with MFIs grew by 6.9% in 2020, an increase from 3.7% in the previous year. Growth in deposits held by private non-financial businesses increased significantly from 2.8% in 2019 to 18.5% in 2020.

In cross-border services, the UK financial services sector has historically generated a balance of payments trade surplus. In 2019 (the latest available figures), the surplus was €46.2 billion, a decline from €51 billion in 2018 but still some two-fifths of the UK's total trade surplus in services.

The UK banking sector contributed an estimated 5.4% of UK tax revenue in 2020, a greater proportion than its share of UK gross value added. The total tax contribution of the sector was an estimated €44 billion. The estimated tax contribution comprised of €20 billion in employment and other taxes collected and €24 billion in corporation and other taxes borne. To support the UK economy throughout the pandemic, UK banks approved 1.5 million government-backed loans to the sum of £68 billion, with an approval rate of 98.8%. The sector employs more than 388,000 people – some 1.2% of the total UK workforce and 35.3% of the financial services sector.

Albania

The pace of economic growth remained high during the 2021. According to INSTAT, the economic activity grew by 8.5% during 2021. Economic growth was driven by many factors and was broadly-based. It was accompanied by a lower unemployment rate and higher inflationary pressures. In December 2021, the Bank of Albania reconfirmed its accommodative monetary policy stance, maintaining an unchanged policy rate, at its lowest historical level of 0.5%. The inflation rate in Albania increased rapidly, reaching 3.7% in December 2021. The fiscal policy also remained accommodative in the second half of 2021, maintaining the same approach as in the previous year. In December 2021, the fiscal deficit reached ALL 90 billion, down by ALL 25 billion from the same period in the previous year. The deficit tightened as a result of the strong annual recovery of income (20%).

During the period of 2021, the share of financial system assets to GDP slightly increased, reaching 111%. Banking sector activity and investments funds were the main contributors to this increase. The share of the banking sector to GDP reached 99%, while the share of the non-bank sector was 12% of GDP, remaining unchanged from the previous year. The banking sector was well-capitalized. The capital adequacy ratio at the end of the period was 18%. The indicator remained unchanged during the period, but decreased compared to the previous year due to the rapid growth of risk-weighted assets. All banks meet the required minimum capital adequacy ratio of 12%. The financial leverage ratio increased during the year, and was higher for banks with Albanian capital.

As at the end of 2021, the structure of the banking and financial system in Albania consisted of 12 banks, 35 non-bank financial institutions (NBFIs), 556 foreign exchange bureaus, 16 Savings and Loan Associations (SLAs) and one Union of SLAs.

During 2021, despite the situation created by the Covid-19 pandemic, applications to conduct foreign exchange activities continued. At the end of 2021, a total of 556 foreign exchange bureaus were operating in the foreign exchange market.

The banking sector closed 2021 with a profit almost 30% higher than the previous year. The financial result recorded an annual growth due to the increase of net interest income and other activities income, and a decrease of expenditures for loans provisions.

At the end of 2021 H1, outstanding loans totaled around ALL 670 billion, up 10% from the previous year. Deposits grew by 7%, during the period, and by 11% compared to the previous year, reaching ALL 1,433 billion.

As at end of 2021, the non-performing loans ratio (NPLR) dropped by 2.46 percentage points, in annual terms, to 5.65%. At the end of 2021, the non-performing loans reached at ALL 37.9 billion. Meanwhile, the loan portfolio increased by ALL 62.12 billion, or 10.28% during this year.

Customer deposits remain the main source of financing for the Albanian banking system, sharing 80.8% (81.3% in December 2020) of total liabilities. In December 2021, the total value of deposits in the system amounted to ALL 1.433 billion, recording 10.25% annual growth from the previous year.

Structure of deposits by currency has changed slightly in favour of foreign currencies, in a ratio 48%/52% broken by lek/foreign currency, due to the strong growth in foreign currency-denominated deposits. The share of the domestic currency in total deposits decreased to 41.1%, from 49.5% in December 2020.

Due to a higher positive financial result than in the previous year, the main profitability ratios, Return on Average Assets (RoAA) and Return on Average Equity (RoAE), increased compared to 2020. At the end of 2021, RoAA stood at 1.31% and RoAE at 12.89%, from 1.10% and 10.41%, respectively at the end of 2020.

At the end of 2021, the financial system included 35 NFBIs, up by five entities compared to 2020. At the end of 2021, the gross credit portfolio of NFBIs reached ALL 42.1 billion, registering an increase of ALL 5.51 billion (or 15.1%) compared with the previous year. The credit portfolio of NFBIs accounted for 5.9% of total credit in the banking system, maintaining almost the same share compared to the previous year.

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.

For Andorra, 2021 has been a year of recovery and optimism in which we have put the economic consequences of the pandemic behind us. Andorran institutions have maintained their strength and attractiveness in terms of securing customer funds and growing profits. The banking sector has been one of the drivers of the Andorran economy and has been a key player in guaranteeing liquidity during the Covid-19 crisis.

Over the course of 2021, banking institutions have maintained their strength in terms of attracting customer funds and growth. Andorran banks closed the year 2021 with an aggregate result of €97 million, a level similar to before the pandemic. The main financial indicators have shown the robustness of the Andorran banking industry. The ROE, which measures the financial profitability of banks, has increased to 6.04% despite the low interest rates, merger operations in the banking industry, continuing adaptation to international banking regulations and technological investments that continue to put pressure on banks' results. Also, the sector's liquidity and solvency ratios have been higher than the average for European banks. The liquidity coverage ratio (LCR) stands at 206%, also higher than the average for European banks which was 174% at the end of the 4th quarter of 2021, and the default rate dropped to 3.74% in 2021, down from 4.49% in 2020. The CET1 (phase-in) solvency ratio was 17% at 31 December 2021.

The banking sector is a crucial sector in Andorra's economy, not only because it accounts for 15% of the country's GDP but also because of its role in society as a driver of change. It is characterised by a cautious management approach, solvency levels above the European average due to the specific characteristics of the market and country, and a high degree of expertise and specialisation in both commercial and private banking. 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.

The banking sector has also remained committed to serving the country's business community and has been at its side since the beginning of the health crisis, making the special guarantee programme available to local companies and businesses. The economic recovery has been reflected not only in the growth of profits, up 16.52%, but also in the volume of customer funds under management, up 19% to € 61.461 billion. Credit investment in Andorra has also grown by 10.42% to € 7.031 billion in 2021.

These figures confirm the industry's resilience and its ability to adapt to adverse circumstances. The pandemic crisis, the disparate situations in financial markets, which have seen rises of nearly 20% in US indices and falls in emerging markets, banks' investments in technological transformation and the continuous process of complying with regulatory standards have clearly demonstrated the strength of Andorra's financial institutions. As a result of the corporate operations carried out in 2022, the acquisition of BancSabadell d'Andorra by Mora Banc and the purchase of Vall Banc by Crèdit Andorrà, the Andorran banking sector has sent an unequivocal signal to the markets and its customers that the industry is ready to address the future challenges facing the financial banking sector worldwide. By the end of 2022, Andorra's banking industry will have three large banking groups: Andbank, Mora Banc and Crèdit Andorrà,

with over 90 years of banking experience with a presence in 11 countries. The aim of the recent M&As is to ensure that Andorra's institutions and financial system are more consolidated, more efficient and better prepared to meet customers' needs, regulatory requirements and the demands of financial markets, which are becoming increasingly global and subject to a higher level of competitiveness and excellence.

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. It is:

The total asset has been multiplied by two in 15 years.

Monaco's continued attraction as a financial center 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. 70% of the industry's assets belong to non-resident clients from across Europe and sub-Saharan Africa, the Middle East, Latin America and Asia-Pacific.

Under various agreements between France and Monaco, Monegasque banks are supervised by the Prudential Supervisory Authority (Autorité de Contrôle Prudentiel - ACP) and are therefore subject to the same prudential and regulatory rules as French banks. All supervisory activities are, of course, strictly 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.

The industry provides a full range of private banking products and services, as well as a personalized approach to a highly demanding clientele. More importantly, it guarantees the confidentiality of "clean" money.

It also provides access to mutual fund management through a very broad array of investment funds covering every business sector and markets, including emerging markets.

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.

Contributor: Monaco Association for Financial Activities - amaf@amaf.mc

Montenegro

The reduced impact of the pandemic and the re-opening of borders contributed to the economic rebound in 2021. The revival of tourism and related activities had an effect on the return of economic activity to the zone of renewed growth i.e., the real GDP grew at a double-digit rate of 12.4%.

The level of public debt continues to represent a key systemic risk in Montenegro. Namely, after a certain reduction of public debt in relation to GDP during 2016 and 2017, public debt increased from 64.2% to 105.3% of GDP in period 2018-2020, mainly due to indebtedness under the loan for the construction of the priority section of the highway and due to the coronavirus pandemic. In 2021, the debt reduced to 84.8% of GDP due to the economic rebound and the repayment of the matured debt arising from the issued Eurobonds.

When it comes to the banking sector, very good capitalization was preserved, since the solvency ratio decreased slightly during the year, as a result of the application of measures from the Asset Quality Review, but it was still at a significantly higher level than the statutory prescribed minimum. In addition, the liquidity of banks was still high, with additional growth during the year. The following vulnerabilities stand out among the main structural vulnerabilities of banks: the share of bad loans in total loans, exposure of banks to the state, exposure of banks to the household sector (especially in the case of cash loans), as well as an increase in the maturity mismatch between sources and funds (due to the general increase in the share of demand deposits from one side and long-term loans on the other side). The real picture of the situation regarding non-performing loans and the solvency ratio was additionally confirmed after the completion of the Asset Quality Review (AQR) process, as well as after the expiry of most of the interim measures of the Central Bank, which provided a significant relief for the regulatory treatment of loans.

Banks are the most stable segment of the economic system, which is reflected to a significant extent in the stability of deposits in the banking sector. At the end of 2021, they amounted to a record € 4.2 billion, making up by far the largest part of banks' liabilities (78.8%). The growth of deposits led to the growth of bank assets, whereby the banks diverted received funds much more into the liquid assets and less into loans. During 2021, total liquid assets of banks increased by 38.3% to € 1.4 billion, their share in relation to assets and to deposits increased also to 26.4% and 33.4% (from 22.2% and 30.1%), respectively. With regard to the structural limitations to the growth of the Montenegrin economy, these liquid assets are currently the best safety reserve for banks against the risk of asset quality deterioration and/or deposit outflows.

At the end of 2021, financial sector assets amounted to € 5.7 billion or 116.3% of GDP, which is the result of a significant increase in banks' assets, as well as an incomplete recovery of GDP compared to the pre-crisis level. The banking sector continues to be the backbone of financial intermediation in Montenegro and occupies a dominant position in the assets of the financial system (93.3%).

Deposits have been the dominant source of funding for banks for many years and accounted for 78.8% of liabilities at the end of 2021. Their share in the balance sheet total increased by 5.3 percentage points on an annual basis. Due to the coronavirus pandemic, at the end of 2020, deposits recorded their first annual decline since 2010. Nevertheless, from September 2020 to the end of 2021, deposits increased every month, which during 2021 amounted to € 828.4 million or 24.6%. Thus, total deposits were at a historical

maximum of € 4.2 billion, and such an inflow of deposits undoubtedly indicates the confidence in the banking sector.

In 2021, banks' lending activity has slightly intensified. Total loans were at a historical maximum in August and amounted to € 3.53 billion, although they decreased to € 3.36 billion by the end of the year. Observed in terms of new loans, lending activity amounted to € 1.11 billion, which is an annual growth of 22.6%. In general, lending activity was not at the level of the pre-crisis period, but in the circumstances of the ongoing coronavirus pandemic, it was of a satisfactory volume.

Banks' liquid assets amounted to € 1.4 billion, and its annual growth was 38.3%. Liquid assets accounted for 26.4% of total assets, which is an increase of 4.2 percentage points compared to the end of the previous year.

At the end of 2021, total capital of banks was higher by 3.4% compared to end 2020 and it amounted to € 609.5 million. The share of total capital in the balance sheet total was 11.4%, while the share of initial capital in the balance sheet total was 9.3%.

Republic of North Macedonia

It can be said that 2021 was a year of gradual recovery after the first pandemic blow. However, the economic recovery was challenged by new Covid varieties that imposed occasional health care measures. In the second half of the year, the risks related to the disturbance in the global supply chains, the increased prices of energy products and mainly, the increased inflation rate, became more pronounced.

In 2021, to ease the financial conditions and further support the domestic economy, the National Bank continued to loosen the monetary policy and has declined the key interest rate to the historically lowest level of 1.25%. The average inflation was 3.2% while unemployment rate was 15,2%.

On December 31, 2021, there were 15 deposit-taking institutions in the country, 13 banks - 12 private and one state owned and two savings houses. 10 banks were owned by foreign shareholders and the number of subsidiaries of foreign banks was five. Participation of foreign capital in total banks capital was 76,29 %. Shareholders from the European Union were prevailing, with the highest participation in total capital and reserves of shareholders from Greece (23,5%), Slovenia (16,1%), and Austria (11,2%).

The banking network was spread throughout almost all cities in the country and consisted of 388 business units with 5.755 employees.

The qualification structure of employees in the banking sector and bank productivity, measured by the assets created by one employee noted further improvement.

In 2021 the lending activity accelerated, reaching a credit growth of 8.3% that was supported by the increase of deposits by 7.1%. Banks and saving houses have also paid attention to raising awareness about green finances. At the end of 2021, the level of non-performing loans was 3.2%.

The citizens have increasingly used digital channels to make payments, especially payment cards and mobile applications for electronic initiation of credit transfers.

The total number of payments made in 2021 in the country recorded an annual growth of 26.7% with realized 176 million transactions. Participation in contactless payments with payment cards in 2021 grew by 5.9%, reaching 83.7 % in total card payments at physical points of sale.

The solvency of the banking system improved. As of 31 december 2021, the capital adequacy ratio equaled 17.3%, which is by 0.6 percentage points higher compared to the end of 2020. In 2021, the domestic banking system reported higher operating profit (by 26.2%), compared to the previous year.

Indicators of return on equity and assets were 12,9 % and 1,5 % accordingly.

In 2021, despite all the challenges, the Macedonian banking system has successfully managed the risks and remained the main pillar of financial stability in the country.

Serbia

At the end of 2021, Serbia recorded the GDP growth rate of 7.4% in 2021, owing mainly to the expansion in the sectors of services, construction, manufacturing and mining. A negative contribution to growth came from agricultural production, which fell by 5.4% in 2021, due to the drought. In addition, sound macroeconomic fundamentals and robust monetary and fiscal policy measures enabled Serbia to weather the COVID-19 crisis more easily.

In 2021, relative stability of the dinar exchange rate against the euro was preserved owing to adequate NBS interventions in the interbank FX market. During the year, Moody's upgraded Serbia's credit rating, Fitch affirmed it, while Standard & Poor's revised the investment rating outlook from stable to positive, confirming macroeconomic stability, a favourable growth outlook, and the adequacy of economic policy before and during the crisis. In June 2021, J.P. Morgan included Serbia's dinar bonds in its renowned bond indices. By adopting the Law on Digital Assets and the new Law on the Capital Market, Serbia improved its regulatory framework, which lays ground for further development of the capital market.

In the middle of the year, year-on-year inflation began to rise, trending above the upper bound of the target tolerance band as of September. The rise occurred due to the supply-side factors, mainly from the international environment, such as hikes in primary commodity prices, the European energy crisis and disruptions to global supply chains. External debt reached € 36.5 billion or 68.5% of GDP at end-2021.

In mid September, for the first time in history, Serbia issued the green Eurobond worth € 1 billion, which marked it as one of the few European countries and the first non-EU European country issuing the green instrument.

At end-2021, net assets of the banking sector amounted to RSD 5,048.0 billion (around 81% of GDP). In terms of the ownership structure of the banking sector, the largest share was held by foreign-owned banks (87%), while domestic state-owned banks and domestic private banks accounted for 7% and 6%, respectively.

Concerning lending, at end-2021, the credit portfolio was worth RSD 2,941 billion. The bulk of the portfolio related to corporate (49.5%) and household loans (44.7%). In 2021, the domestic lending activity continued up, driven by both supply and demand-side factors. The supply of loans went up on the back of NBS monetary policy in the previous period, extension of validity and increase in the amount of loans granted under the Guarantee Scheme, favourable financing conditions in the domestic and international money market, as well as interbank competition. On the other hand, the demand for loans expanded owing to greater needs for liquidity etc.

Serbian banking sector was adequately capitalized in 2021. At end-2021, Capital Adequacy Ratio stood at 20.8%.

As loans account for a dominant share of total balance sheet assets of the domestic banking sector (64.3%), the share of NPLs in total loans is a significant measure of asset quality. Following record low values of the share of NPLs in total loans in 2020, the coronavirus pandemic slowed the downward trend of this indicator. At the end of 2021, it stood at 3.6%.

Serbian banking sector liquidity remained high in 2021, with no adverse impact of the coronavirus pandemic in this business segment. At the end of 2021, the average monthly liquidity ratio stood at 2.1, well above the regulatory minimum (1.0).

The Serbian banking sector posted a positive financial result in 2021. Banking sector's profit at year end resulted in RoA of 1.2% and RoE of 7.8%. RoA was below the region's average, as well as RoE owing to high capitalization of the Serbian banking sector.

Banking sector's net profit before tax amounted to RSD 53.9 billion in 2021, increasing by RSD 7.8 billion (or 16.9%) from 2020. Total profit of RSD 54.7 billion was made by 20 banks (99.1% of banking sector net assets), while three banks operated at a loss of RSD 0.8 billion.

Turkey

Economic activity was very strong in Turkey throughout 2021 thanks to measures taken against the pandemic to support production, investment, exports and employment. The recovery in global economy and the increase in international trade volume also supported the growth through foreign demand. The Turkish economy grew by 11.4% in 2021, meanwhile inflation was 36%. The ratio of budget deficit to GDP was 2.7%. There was a deficit of USD 15 billion in the current account, about 1.9% of GDP.

The banking sector supported economic activity through regular and widespread funding. The banking sector activities in 2021 were largely shaped by economic growth and monetary policy regulatory framework. The negative effects of the pandemic on the economy started to decelerate during 2021, when total assets of banking sector increased steadily and mildly throughout the year. Deposit interest rates climbed faster than those on loans due to pressure on TL liquidity.

Capital adequacy standard ratio was 18.3%. Core capital ratio stood at 13.4%. Capital adequacy ratio was 18.1% in deposit banks and 22.6% in development and investment banks.

Total assets were USD 691 billion as of 2020. A major portion of this increase stemming from TL items. The ratio of total assets to GDP increased by 8 points to 128%. Banking sector loans and liquid assets represented 53% and 21% of assets, respectively. The share of securities was 16%. The share of subsidiaries and fixed assets was 2%.

The 57% of total loans were extended to large scale companies and project financing, 21 percent to SMEs, and 22% to consumers. The distribution of corporate loans among manufacturing, commercial, construction and energy sectors 21%, 12%, 9% and 8%, respectively.

The loan-to-deposit ratio was at 92% level. This ratio was 151% in TL items, and 60% in FX items as of December 2021.

The ratio of non-performing loans before specific provisions to total loans was at 3.2%. This ratio was 3.4% in corporate loans, and 2.4% in consumer loans.

Deposits and non-deposit funds accounted for 58% and 25% of the liabilities, respectively. The shares of shareholders' equity was 8%.

Total deposits grew by 53% in nominal terms and 9% in fixed exchange rates to USD 398 billion. The ratio of deposits to GDP was 74%. The share of TL deposits in total deposits decreased by 10 percentage points to 35%.

Interest expenses grew faster than interest income. Since the maturity of liabilities is shorter than the maturity of assets, the rise in interest rates caused interest expenses to increase more rapidly. Net interest income increased by 24%.

The ratio of interest margin to average assets decreased by 0.3 points to 2.9% in 2021. Average return on assets was 1.3%. The average return on equity increased by 340 basis points to 14.1%.

The number of banks operating in the banking sector was 57 as of December 2021. A total of 35 were deposit banks and 16 were development and investment banks. Out of the 35 deposit banks, three were state-owned banks and eight were private banks. There were six participation banks in Türkiye.

The share of assets of deposit banks was 86%, while the shares of development and investment banks and participation banks were 7% respectively.

The number of branches declined by 23 to 11,171. Decline in the number of branches resulted from private and foreign banks. In 2021, the number of employees per 100,000 people decreased by two to 241, while the number of branches decreased by 0.4 to 13.

As of December 2021, the sector share of the first largest five banks in total assets was 58%. According to deposit volume, the share of the five largest banks in total decreased by 1 percentage point, while their share in loans decreased by 2 percentage points.

As of December 2020, debit card and credit card transaction volume was USD 336 billion, and its ratio to GDP was 44%.

As of December 2021, the number of active customers using digital banking transactions reached 78 million. 97% of the customers were individual, and three percent were corporate.

STATISTICAL ANNEX

EU-27 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, United Kingdom 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.

Country-by-country statistics – Euro area Member States

All figures as at 31 December 2021

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Austria	470	1.000.338	719.033	681.676	66.895
Belgium	82	1.161.228	779.479	843.267	47.632
Cyprus	29	71.919	50.726	53.113	8.072
Estonia	40	38.191	32.986	29.874	5.536
Finland	209	716.183	479.360	328.056	19.695
France	399	11.061.664	7.234.017	5.967.587	378.404
Germany	1.445	9.172.161	6.059.162	5.760.668	526.817
Greece	36	328.370	169.984	263.394	30.998
Ireland	288	1.415.974	476.196	449.314	38.940
Italy	457	3.983.075	2.600.499	3.052.159	268.321
Latvia	49	24.798	19.767	19.350	5.789
Lithuania	81	44.374	39.037	38.486	10.884
Luxembourg	125	1.384.745	634.971	600.444	25.966
Malta	22	42.585	22.515	27.901	5.193
Netherlands	86	2.644.158	1.637.043	1.549.189	63.185
Portugal	144	438.551	296.848	345.588	47.448
Slovakia	26	106.613	84.289	81.662	17.721
Slovenia	16	49.409	36.769	40.311	8.787
Spain	194	3.003.056	1.943.740	2.202.538	164.296
Eurozone	4.198	36.687.392	23.316.421	22.334.577	1.740.579

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

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Bulgaria	25	72.004	49.270	54.110	26.832
Croatia	24	69.345	53.199	52.657	18.674
Czech Republic	53	346.470	240.153	213.496	38.175
Denmark	94	1.247.869	780.586	387.773	40.065
Hungary	43	169.259	98.685	122.954	39.142
Poland	604	578.650	338.707	398.563	146.059
Romania	71	140.228	83.863	104.671	51.639
Sweden	151	1.514.440	1.034.714	683.617	48.013
Non Eurozone	1.065	4.138.265	2.679.177	2.017.841	408.599

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
EU 27	5.263	40.825.657	25.995.598	24.352.418	2.149.178

Country-by-country statistics – EFTA Member States and the United Kingdom

	Number of credit institutions	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
Iceland	9	26.980	24.145	14.525	2.442
Liechtenstein	12	67.410	27.100	40.910	2.246
Norway	136	669.000	538.000	302.000	24.262
Switzerland	239	3.203.900	1.585.200	1.824.300	89.528
EFTA	396	3.967.290	2.174.445	2.181.735	118.478

	Number of credit institutions*	Assets (€ million)	Loans (€ million)	Deposits (€ million)	Staff
United Kingdom	356	10.647.169	5.101.810	4.755.026	322.000

*UK's number of MFIs

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. 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.