Banking in Europe:

EBF Facts & Figures 2024

– 2023 banking statistics –

The data contained in this publication has been compiled from publicly available information released by the European Central Bank or Eurostat unless otherwise noted. The cut-off date is 31st December 2023.

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

Except where otherwise specified, 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 Banks.

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. From year 2023 onwards, data will reflect Croatia's accession to the eurozone.

Authors: Francisco Saravia f.saravia@ebf.eu
Louise Le Grusse l.legrusse@ebf.eu

Contents

Chapter 1

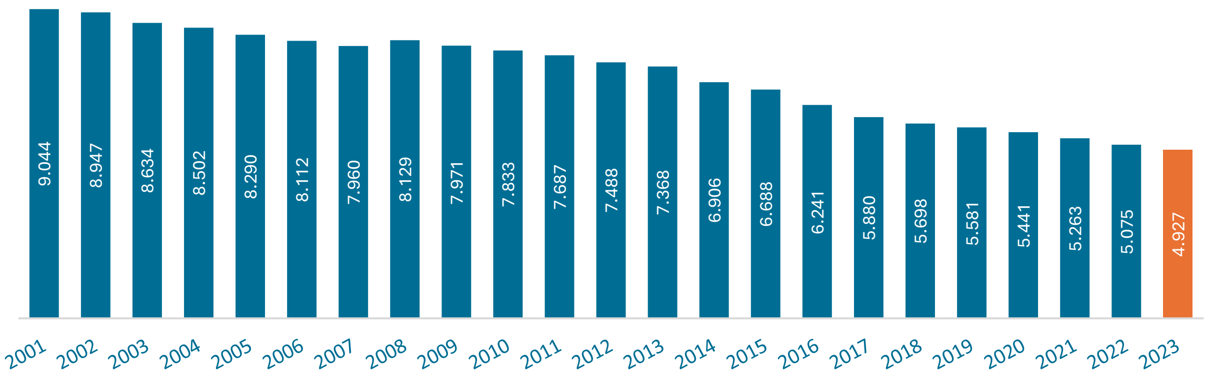
Structure of the banking sector

Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU-27 data. The EU-27 data contained in this chapter has been compiled from publicly available information released by the European Central Bank unless otherwise noted. 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 and national banking associations members of the European Banking Federation.

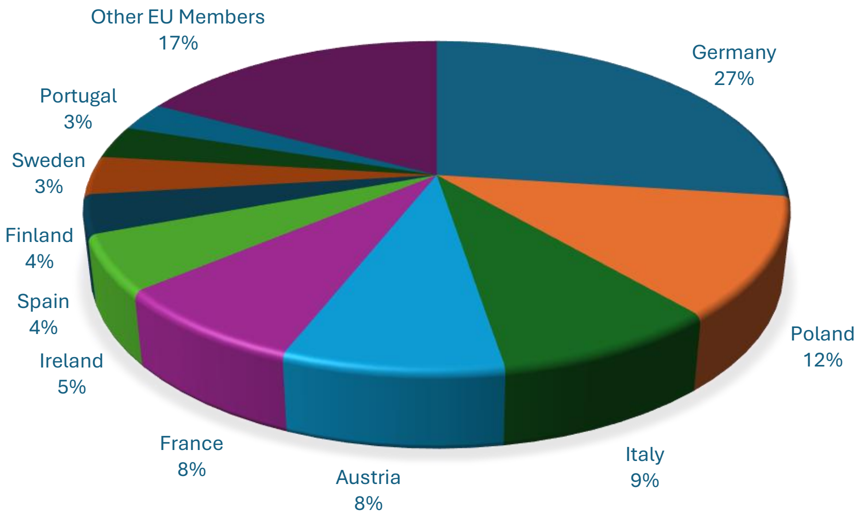
Number of credit institutions

The downward trend in the number of EU-27 credit institutions, which started in 2009, continued with the number falling to 4,927 in 2023 (-148 units). This marked a decline of 2.9% compared to the previous year and a reduction of 3,044 (-38.2%), in total, since 2009, when the contraction started.

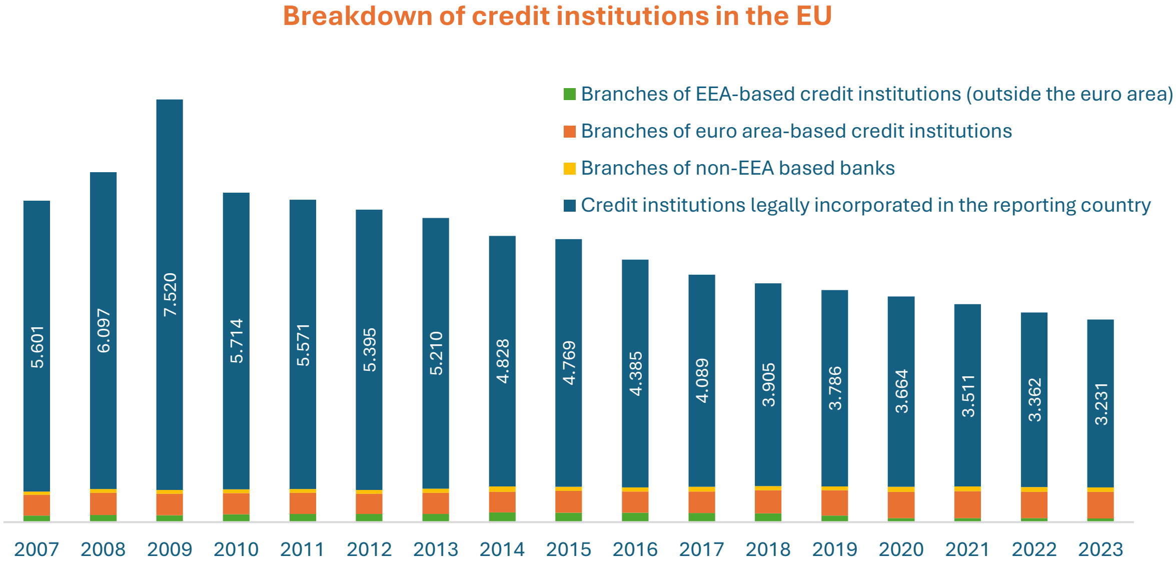
Total number of credit institutions in the EU



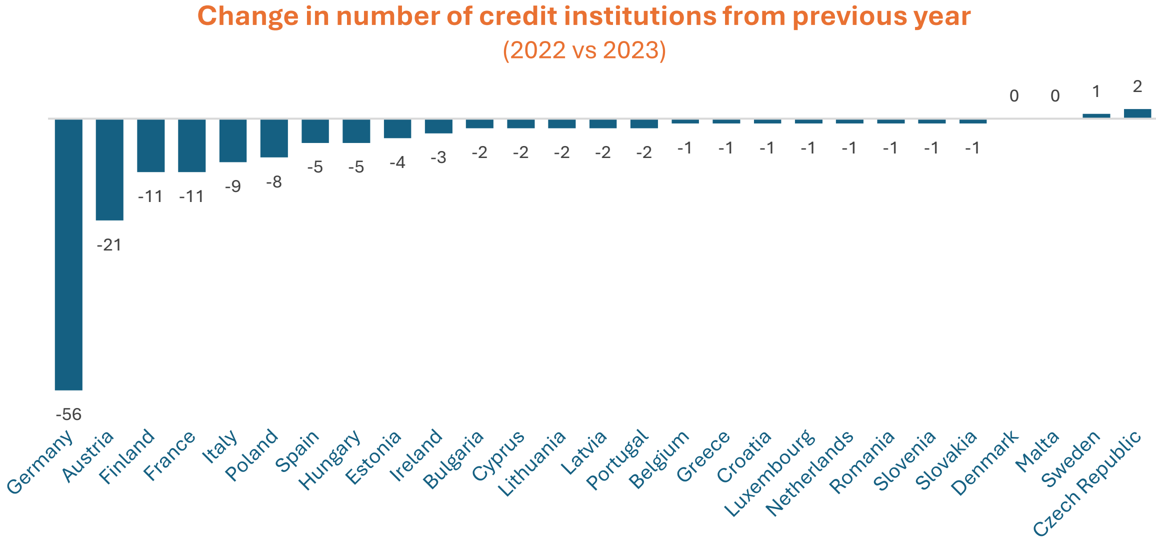
Share by country of total number of credit institutions in the EU



The consolidation among credit institutions legally incorporated into the reporting country continued taking place where the stock has fallen by 38% since 2008.

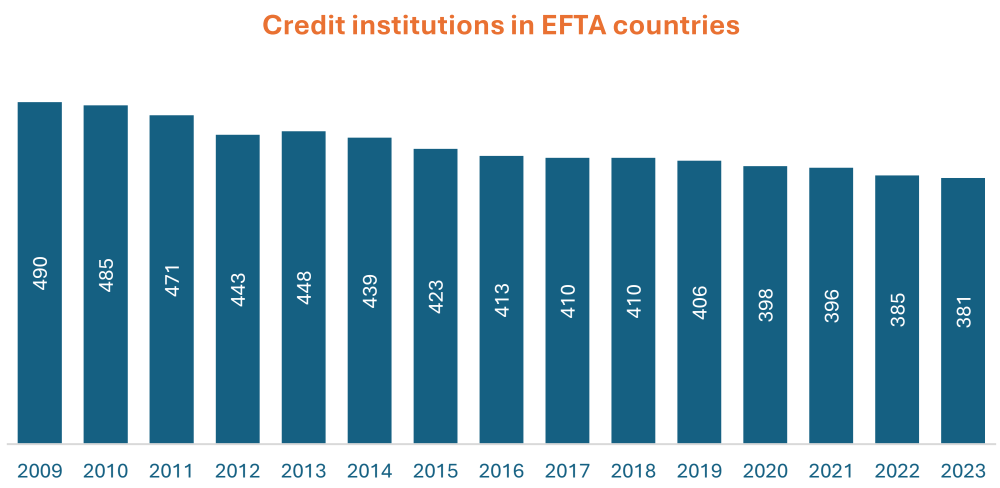


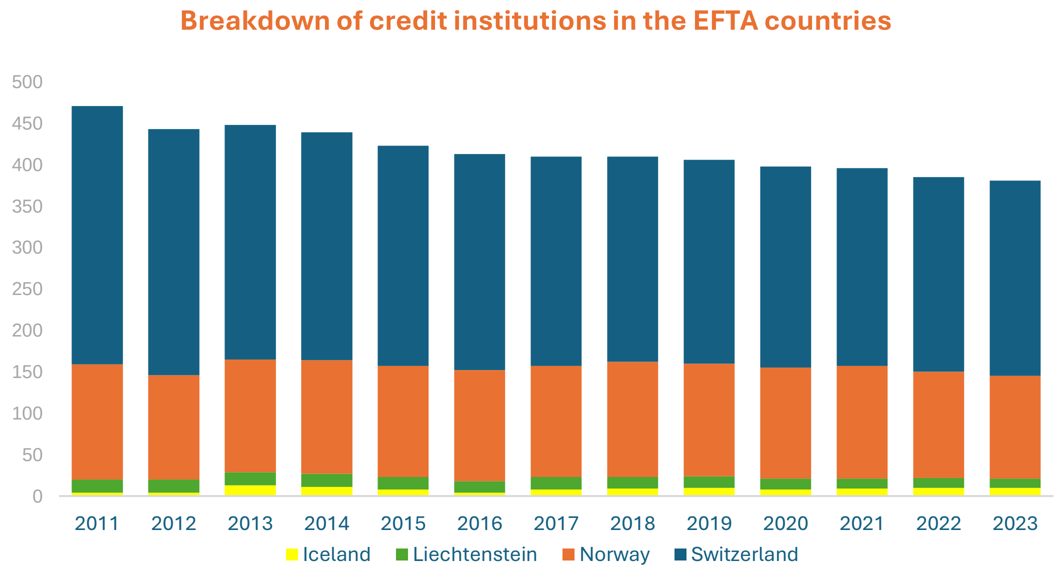
The countries that experienced the largest contraction in absolute terms in 2023 were Germany (-56) and Austria (-21) which continue to lead this for the fourth year in a row, followed by Finland (-11), France (-11) and Italy (-9). The Czech Republic (+2) and Sweden (+1) were the only countries where credit institutions increased in 2023.



The number of credit institutions in the EFTA countries* was 381 in 2023, slightly down from 385 in 2021, 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 22% compared to 57% in the EU-27.

*The EFTA countries (European Free Trade Association) refer to the members of the intergovernmental organization established in 1960 to promote free trade and economic cooperation. These countries currently include Iceland, Liechtenstein, Norway, and Switzerland





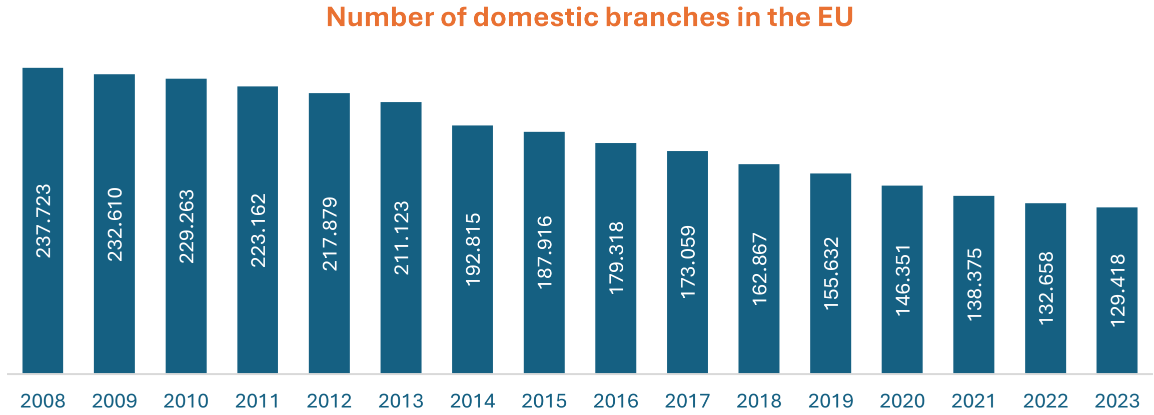
Branches and subsidiaries

The rationalisation taking place in the EU banking sector continued to involve bank branches as the total number of branches continued to shrink, falling to 130,194 by the end of 2023. Compared to the previous year, the total number of branches in the EU-27 decreased by about 2.6%, or 3,476 branches.

Since 2008, the total number of branches has fallen by about 42.4% or 108,305. Spain (-28,245), Germany (-20,023) and Italy (-13,967) were the countries with the largest contraction.

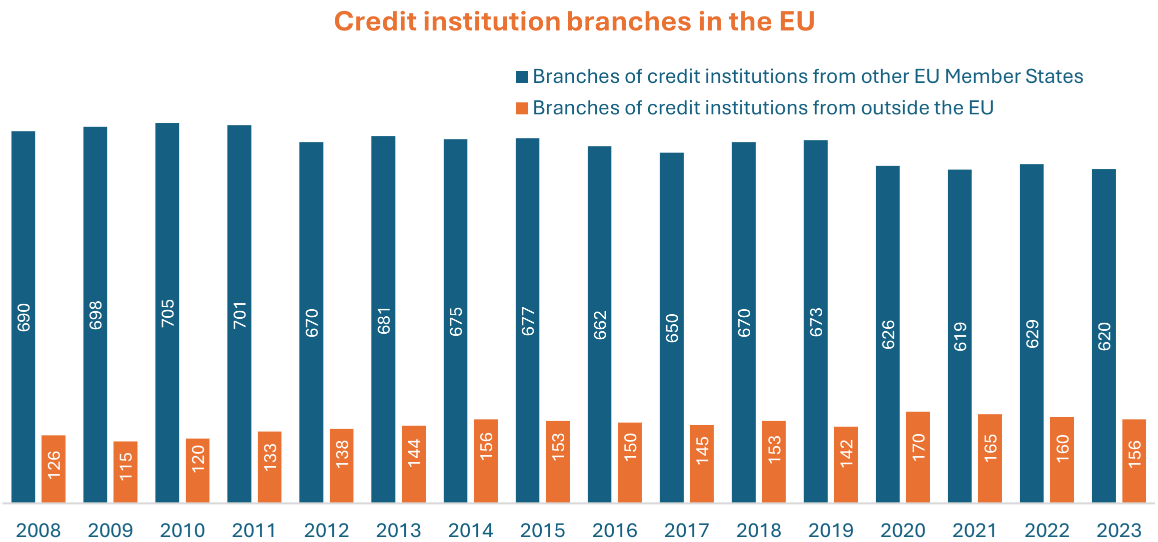
The number of domestic branches, the main category of branches, experienced in 2023 a contraction of about 2.4% or 3,240 branches, albeit at a slower pace than the previous years, reaching 129,418.

In absolute terms, Germany (-944), Italy (-786), and France (-772) experienced the largest drops in domestic branches. Only two countries added domestic branches in 2023: Bulgaria (+562) and Malta (+2).



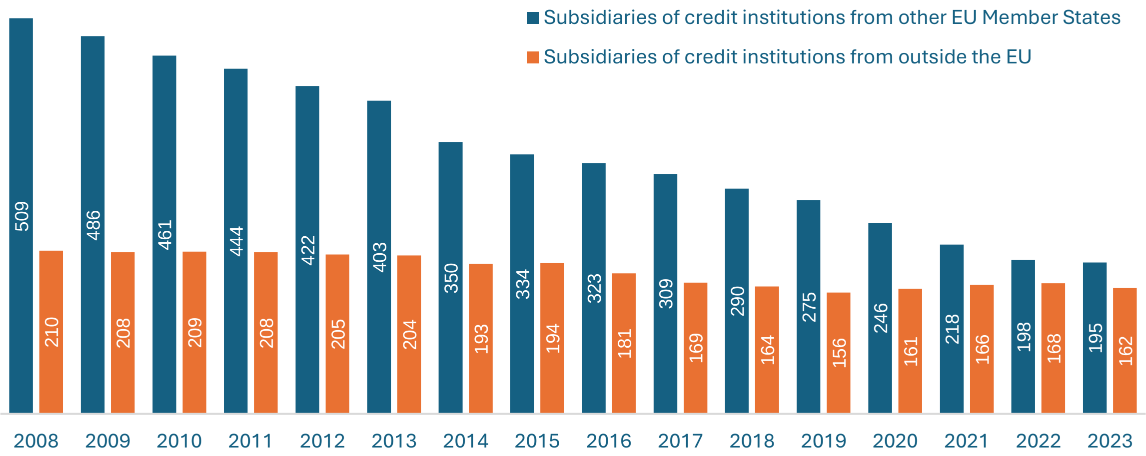
Already for several years, a trend in the establishment of branches has been dominating that of subsidiaries in the EU. At a consolidated bank level, there were 776 foreign bank branches in the EU in 2023, of which 620 were from other EU Member States and 156 were from third countries. The latter contracted (-4) after experiencing the same trend (-5) a year before.

Spain continues to be the country with the highest number of foreign branches from other EU Member States, having 74 branches, followed by France (66) and Germany (58). Germany is also the country with the highest number of branches (45) of credit institutions from outside the EU followed by Italy (35) and Belgium (17).



The overall number of subsidiaries continued declining in 2023 falling by 2,5% to 357, the lowest level since 1997. The number of subsidiaries of credit institutions from other EU countries fell by 3 in 2023. The number of non-EU credit institutions' subsidiaries experienced a small decline to reach 162, after experiencing a two-year increase (166 and 168) in 2021 and 2022 respectively.

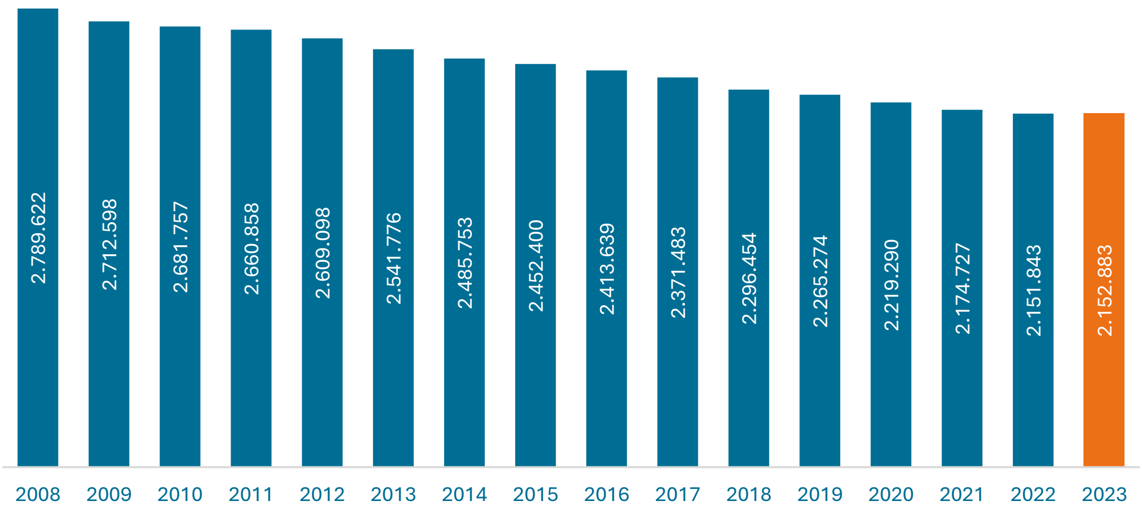
Subsidiaries of credit institutions in the EU



Bank staff

Banks have a large stake in society as important job creators. Banks employed slightly over 2.1 million people in the EU by end-2023. This is about 1,040 more than in 2022.

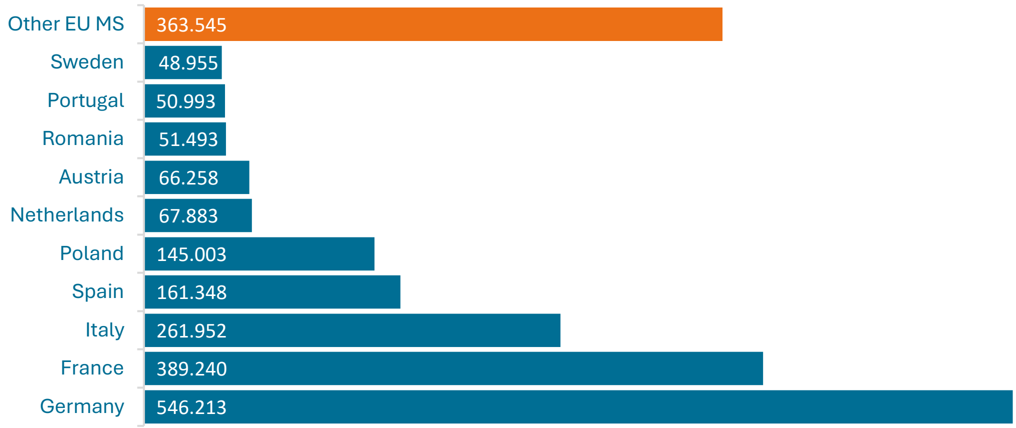
Number of employees in credit institutions



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 63% of the total EU-27 staff. In 2023, the number of employees increased in Portugal, Spain, Sweden, Poland, Finland, Ireland, Austria, Estonia, Netherlands, Luxembourg, Hungary and Malta. The largest drop, in absolute terms, happened in Lithuania and Italy with both having a contraction of about 6,450 combined.

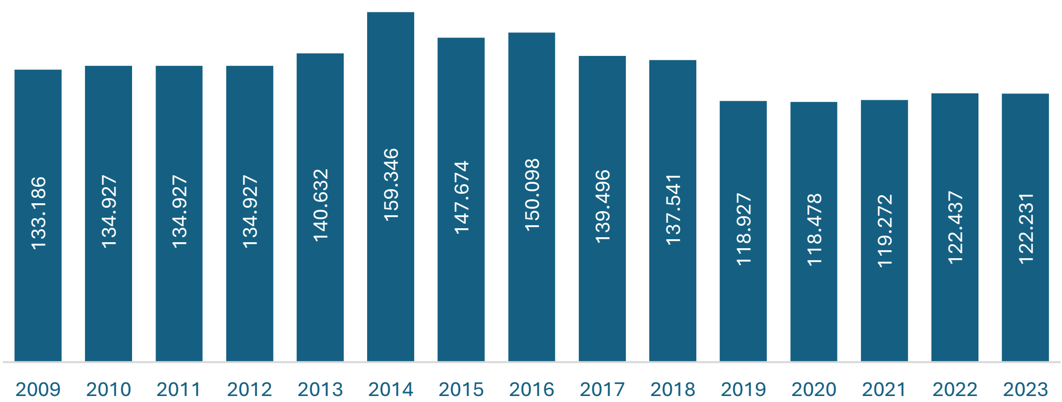
Despite shrinking by almost 44,000 compared to its peak in the number of employees reached in 2008, Poland stayed the country in Eastern and Central Europe with the largest number of jobs in the sector.

Top 10 countries with largest total bank employees



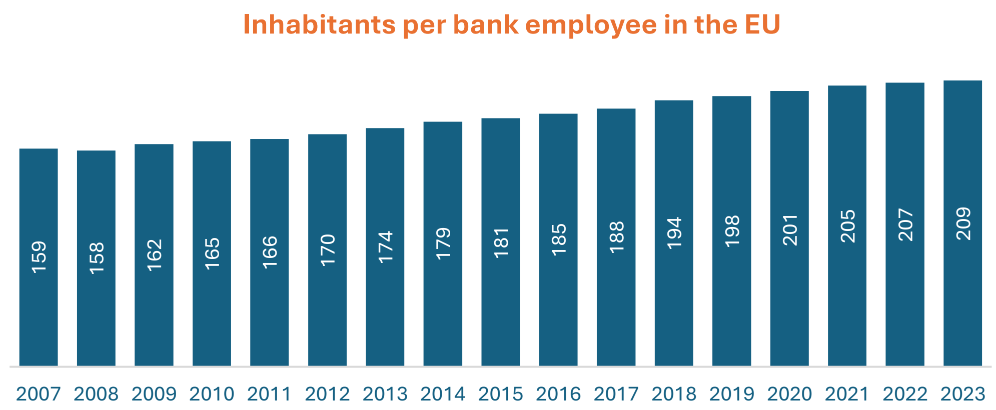
Meanwhile in the EFTA countries, the number of bank staff slightly decreased in 2023, reaching 122,231. This is 206 less than in 2022, but about 37,115 less compared to its peak in 2014. While Norway experienced a decrease (-1,684) from 2022 to 2023, Iceland, Liechtenstein and Switzerland added employees, with each country respectively providing 46, 152 and 1,280 additional vacancies. Switzerland employed about 76% of the total EFTA staff in 2023.

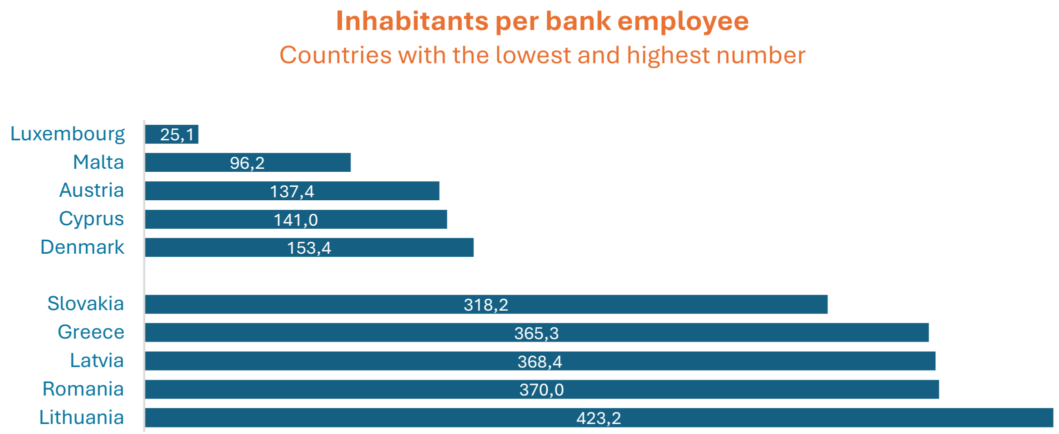
Number of employees in credit institutions in the EFTA countries



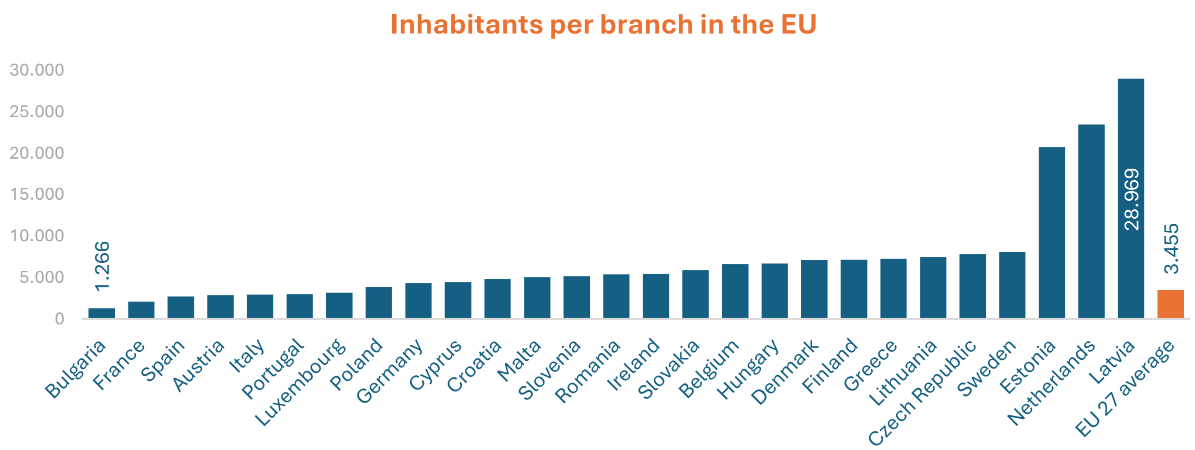
In the United Kingdom, the number of staff employed in the banking sector was about 402,500 in 2023.

Reflecting a contraction in the banking sector, the average number of inhabitants per bank staff member in the EU Member States slightly rose from 207 in 2022 to 209 in 2023. The average number has been increasing each year since 2008, when it was 158, with a 32.3% increase in total. Romania continues to be the country with the highest number with 370 inhabitants per bank staff member, while Luxembourg remains with the lowest number with about 25 inhabitants per employee.



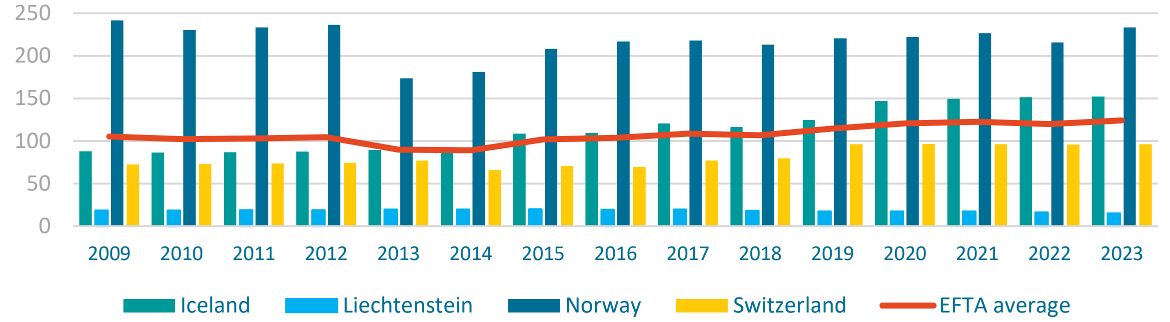


Regarding the number of inhabitants per bank branch, Bulgaria is at one extreme, where each branch welcomes an average of 1,266 citizens, while at the other is Latvia, where a branch provides services to an average of 28,969 inhabitants. The average number of inhabitants per bank branch in the EU-27 is 3,455.



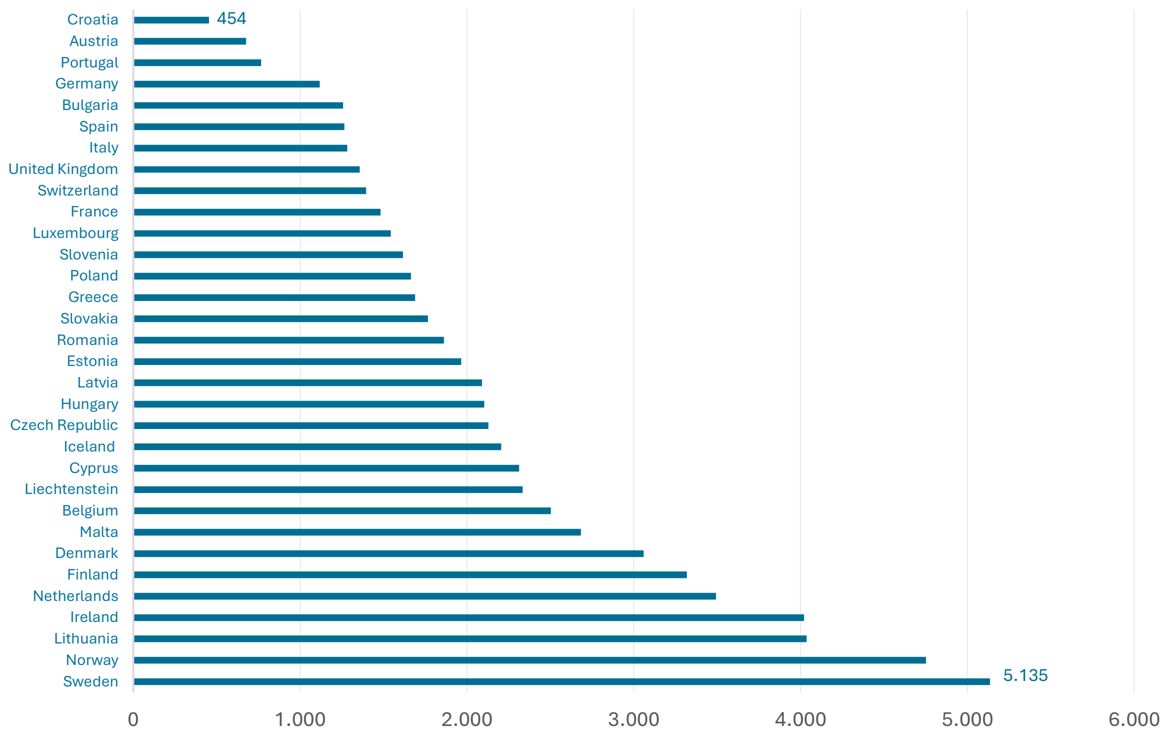
The number of inhabitants per bank staff in the EFTA countries jumped to 124 in 2023 up from 120 in 2022. Norway continues leading the area with highest number, 233 inhabitants per bank staff member, followed by Iceland (152), Switzerland (96) and Liechtenstein (15).

Inhabitants per bank taff in the EFTA countries



The number of ATMs in the European Union totalled 319,573 in 2023, or almost 1,140 less than in 2022. This represents an average of 2,143 inhabitants per ATM in 2023 in the EU. This decline signals the increasing lower demand for cash confirming the move towards the increasing use of digital banking and payments.

Inhabitants per ATM in the EU, EFTA and United Kingdom



*Respective sources for Post-Brexit UK's population and number of ATMs: https://data.worldbank.org/indicator/SP.POP.TOTL?end=2023&locations=GB&start=2019&view=chart & https://researchbriefings.files.parliament.uk/documents/CBP-8570/CBP-8570.pdf ** Respective source for The Netherlands' number of ATMs: Facts and figures on the Dutch payment system in 2023 | Dutch Payments Association ***Respective sources for EFTAs (other than Liechtenstein) and Liechtenstein's number of ATMs: https://fred.stlouisfed.org/categories/32264 & https://cashtic.com/atms/liechtenstein

As far as convenience and accessibility of banking services are concerned, Croatia and Austria lead in terms of the number of inhabitants per ATM of about 454 and 677 respectively. At the same time the two countries with the highest number of inhabitants per ATM was registered in Sweden and Norway. The EFTA countries count with about 7,783 ATMs, resulting in approximately 1,900 inhabitants per ATM. With 49,421 ATMs, the number of inhabitants per ATM in the United Kingdom reaches about 1,358.

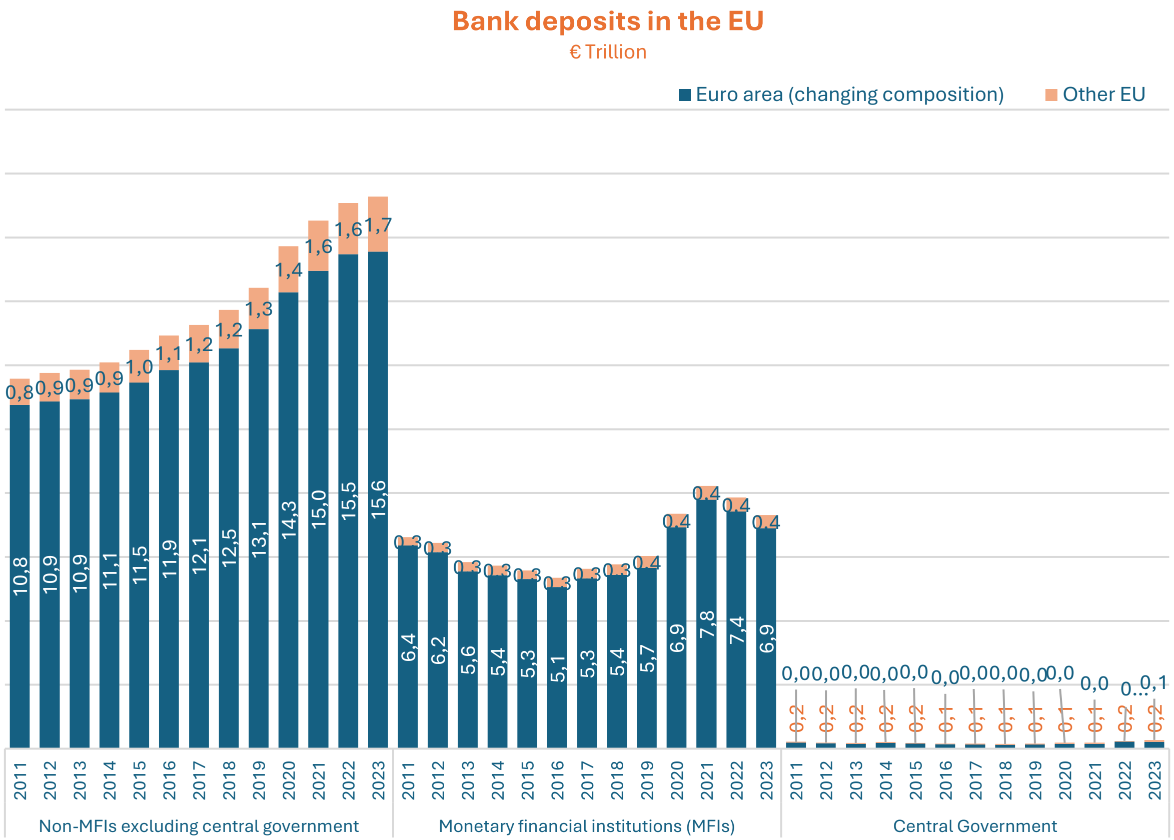
Chapter 2

Supporting customers

Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU-27 data. The EU-27 data contained in this chapter has been compiled from publicly available information released by the European Central Bank unless otherwise noted. 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 and national banking associations members of the European Banking Federation.

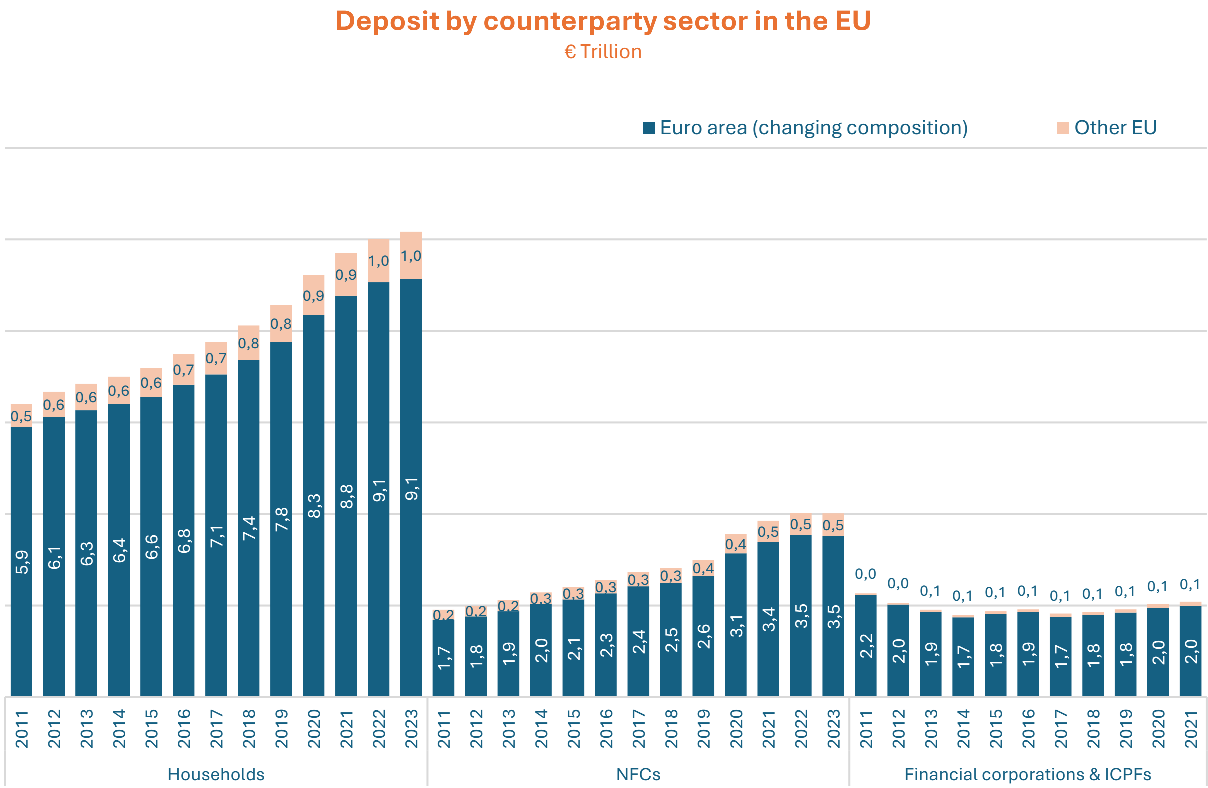
Deposits

Deposit liabilities in the EU decreased by 1.2% to about €24.8 trillion driven mainly by a slowdown in the growth of MFI deposits that went from 3.3% between 2021 and 2022 to 1.2% between 2022 and 2023. MFI deposits saw the largest increase in Belgium, Luxembourg, and Poland. Deposits of non-MFIs excluding central government rose by about €88 billion, €69 billion, and €54 billion in Germany, Poland, and France respectively.



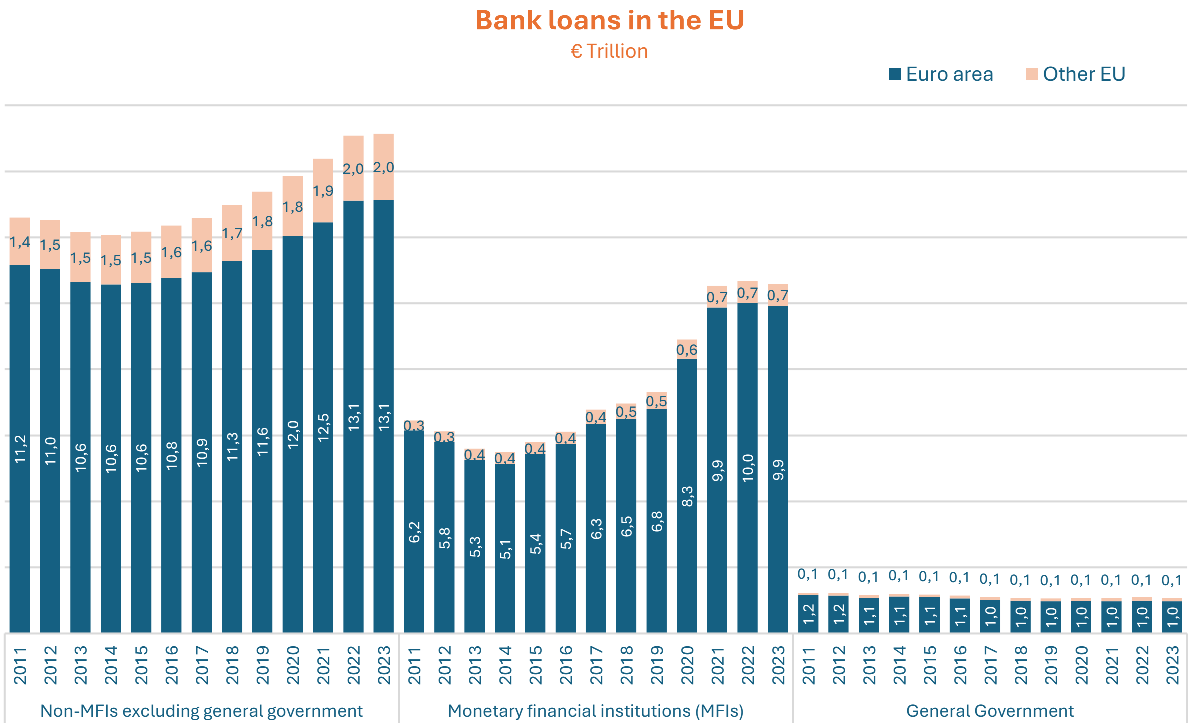
Total deposits from non-MFIs, excluding central governments, grew by 1.2% to €17.3 trillion in the EU at the end of 2023, with over €15.5 trillion in deposits in the euro area. This compares with €11 trillion and €7.9 trillion, respectively, in 2006.

In 2023, 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 €10.17 trillion, €4.01 trillion, and €2.13 trillion respectively.

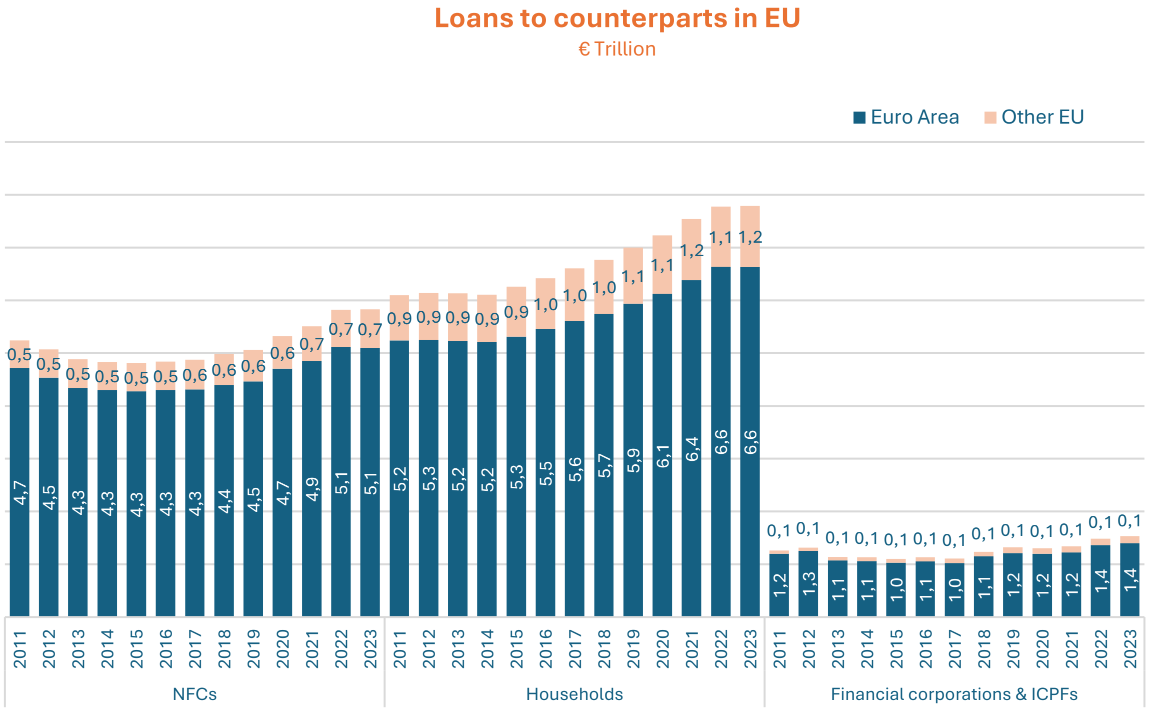


Loans

The total value of loans outstanding from EU MFIs decreased by 0.37% in 2023 to reach about €26.8 trillion, the second-highest level since 2012. The decrease mainly came from a contraction in loans to the General Government sector in the euro area which shrank by about 1.37% in 2023.

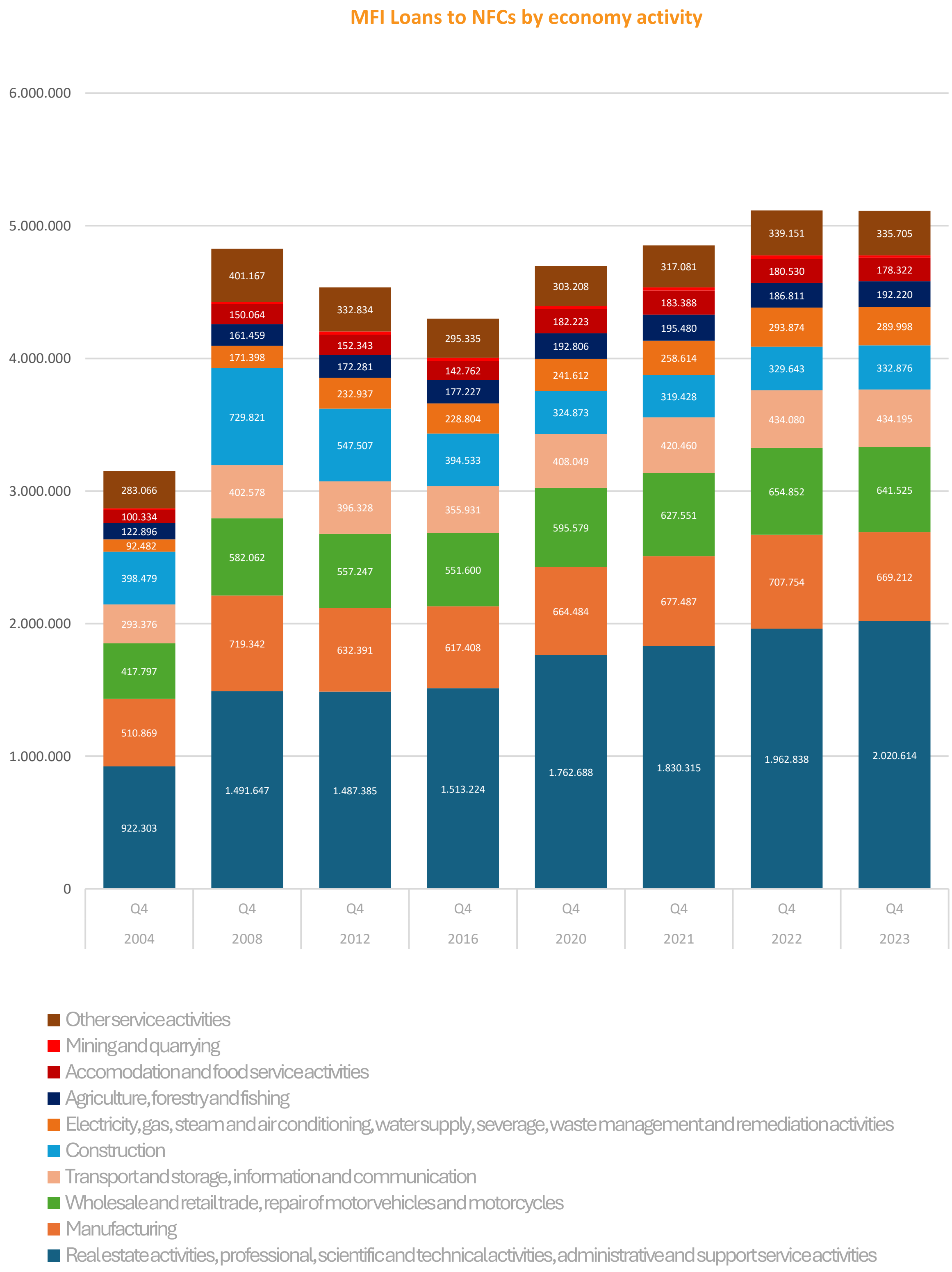


Loans to EU households rose by 0.15% in 2023 to €7.8 trillion. Loans to households in the euro area grew for the eighth successive year, adding almost €2.2 trillion to loans outstanding since 2008. NFC loans outstanding in the EU rose by 0.11% in 2023 to about €5.8 trillion.



Real estate activities, professional, scientific, and technical activities, and administrative and support service activities continued to account for more than one-third (39.5%) of loans outstanding at the end of 2023, up from 30.9% in Q4 2008. The next two largest sectors with loans outstanding were manufacturing and the wholesale and retail trades accounting for 13.1% and 12.5% respectively.

Manufacturing, Wholesale, and Mining respectively encountered a decrease of loans outstanding of 0.7 percentage points, 0.3 percentage points, and 0.1 percentage points. On their part, real estate activities experienced an increase of 1.1 percentage points.


MFI Loans to NFCs by economy activity
6.000.000
5.000.000
4.000.000
3.000.000
2.000.000
1.000.000
0
Q4 2004
Q4 2008
Q4 2012
Q4 2016
Q4 2020
Q4 2021
Q4 2022
Q4 2023
283.066
100.334
122.896
92.482
398.479
293.376
417.797
510.869
922.303
401.167
150.064
161.459
171.398
729.821
402.578
582.062
719.342
1.491.647
332.834
152.343
172.281
232.937
547.507
396.328
557.247
632.391
1.487.385
295.335
142.762
177.227
228.804
394.533
355.931
551.600
617.408
1.513.224
303.208
182.223
192.806
241.612
324.873
408.049
595.579
664.484
1.762.688
317.081
183.388
195.480
258.614
319.428
420.460
627.551
677.487
1.830.315
339.151
180.530
186.811
293.874
329.643
434.080
654.852
707.754
1.962.838
335.705
178.322
192.220
289.998
332.876
434.195
641.525
669.212
2.020.614
Other service activities
Mining and quarrying
Accomodation and food service activities
Agriculture, forestry and fishing
Electricity, gas, steam and air conditioning, water supply, severage, waste management and remediation activities
Construction
Transport and storage, information and communication
Wholesale and retail trade, repair of motor vehicles and motorcycles
Manufacturing
Real estate activities, professional, scientific and technical activities, administrative and support service activities

Chapter 3

Banking sector performance

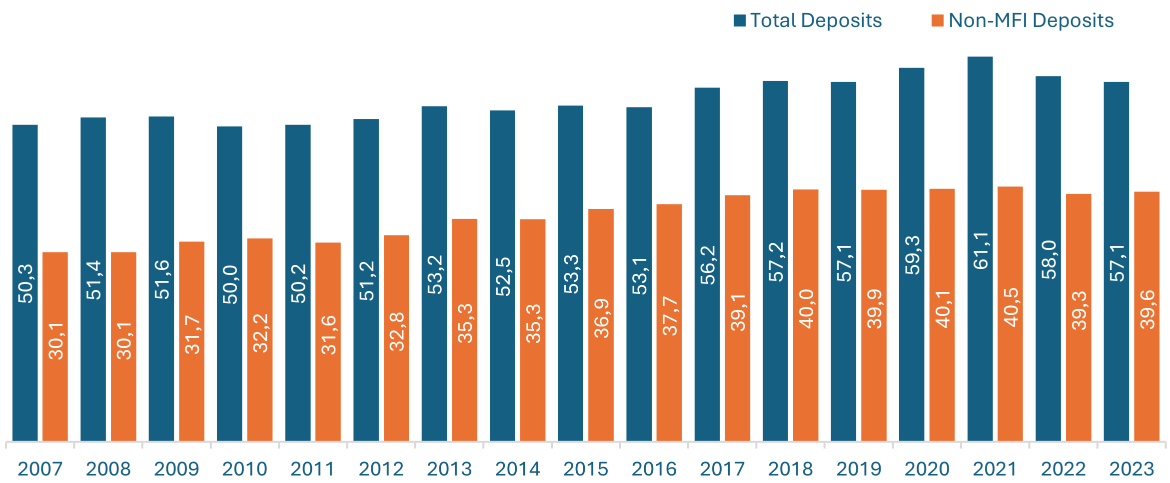
Unless otherwise noted, all data, graphs and tables have been produced to illustrate EU-27 data. The EU-27 data contained in this chapter has been compiled from publicly available information released by the European Central Bank unless otherwise noted. The data relevant for EFTA countries and the United Kingdom has been compiled from the corresponding national central bank, financial supervisory authority, national office of statistics and national banking associations members of the European Banking Federation.

Bank funding

The share of deposit liabilities over total assets experienced a small decline to reach 57.1% in 2023 after a strictly 3-year positive trend that ended in 2021. Nevertheless, this slight change remains in line with the positive trend started in 2007, which confirms the shift towards greater reliance on deposits as a source of funding. The share of non-MFI's deposits to total assets slightly increased from 39.3% in 2022 to 39.6% in 2023.

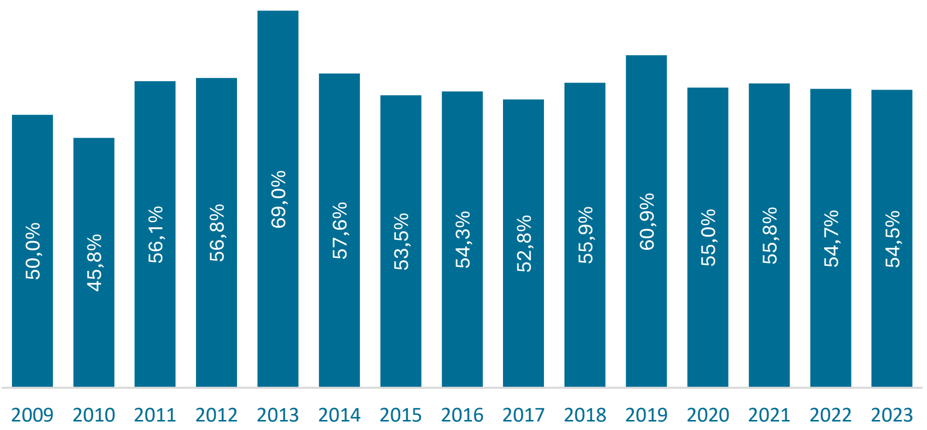
The country breakdown for total deposits with the lowest shares over total assets recorded in 2023 was in Ireland and Denmark, where domestic deposits were equivalent to about a third of the assets with 30.3% and 31.4% respectively. Meanwhile, countries with the largest shares of deposits financing the banking sector's assets were Croatia, Slovenia, Cyprus, Portugal, and Greece, all of which had deposits equivalent to 76% or more of assets. The share of non-bank deposits to total assets was also highest in Bulgaria (73.7%) and lowest in Denmark (20.4%).

Deposits in EU banks as a share of total banking assets - %



After having experienced a substantial increase in the share of deposit liabilities over total assets in 2019 (from 55.9% in 2018 to 60.9% in 2019), the EFTA countries generally remain stable in 2023 reaching 54.5% compared to a 54.7% a year earlier.

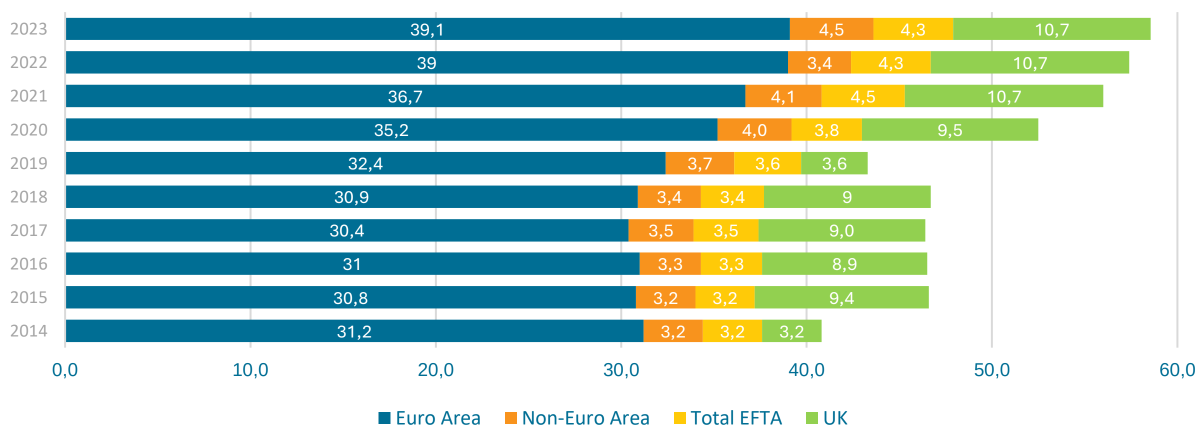
Average deposit liabilities per assets in EFTA countries



Assets

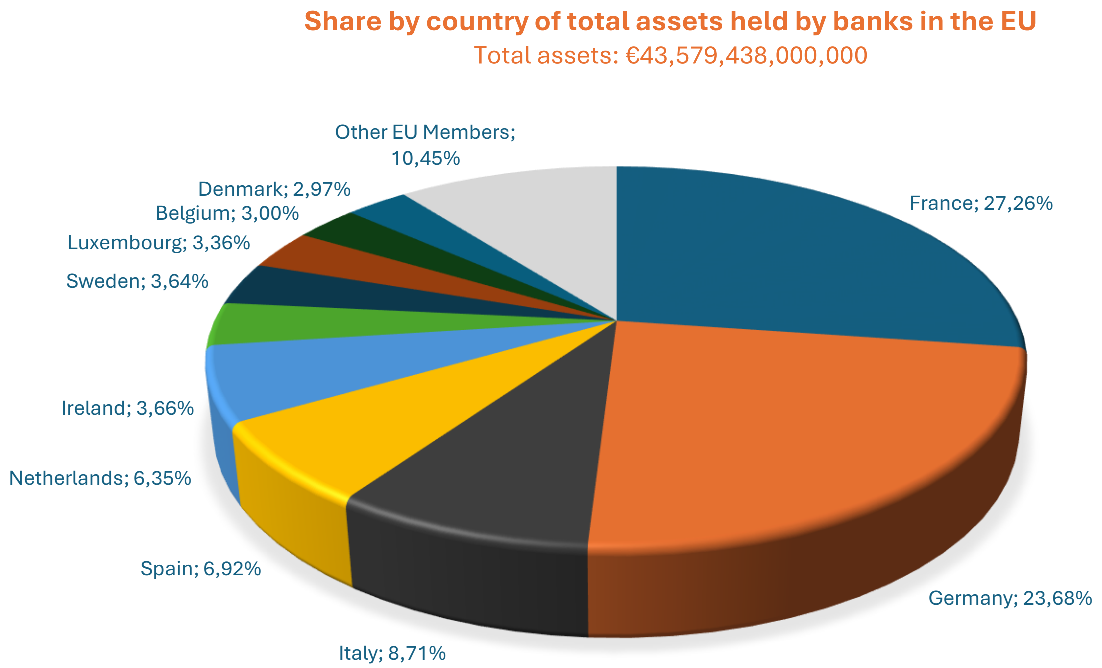
The amount of total assets in the euro area expanded by 27% between 2018 and 2023.The amount of total assets in the EU enlarged by approximately €1.2 trillion between 2022 and 2023, amounting to 43.6 trillion (€39.1 trillion in the euro area, and €4.5 trillion in the non-euro area). Total assets held by operating banks in the EFTA countries and the United Kingdom in 2023 was €4.3 trillion and €10.7 trillion respectively.

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



* As 2022 data was unavailable for the UK, this graph uses 2021 UK figures as a substitute.

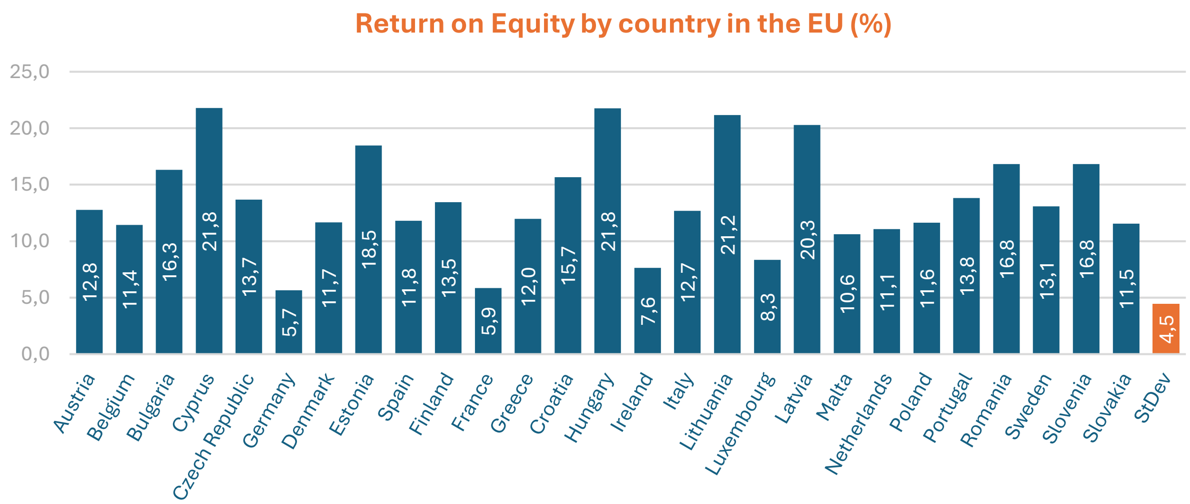
Considering the country breakdown, the countries with the strongest boosts in percentage points from 2022 to 2023 were Poland (17.7%) and Romania (11%). Among the four largest economies, Spain and France registered positive results in their stocks of assets, while Germany and Italy reported slight drops ranging from lower than 5%. Aside from Spain and France, 7 other countries experienced reductions in their stocks of assets: Austria, Denmark, Finland, Greece, The Netherlands, Portugal and Sweden. Countries that reported the sharpest drops are Finland (-7.2%), Italy (4.4%) and the Netherlands (-3.6%)



Bank profitability

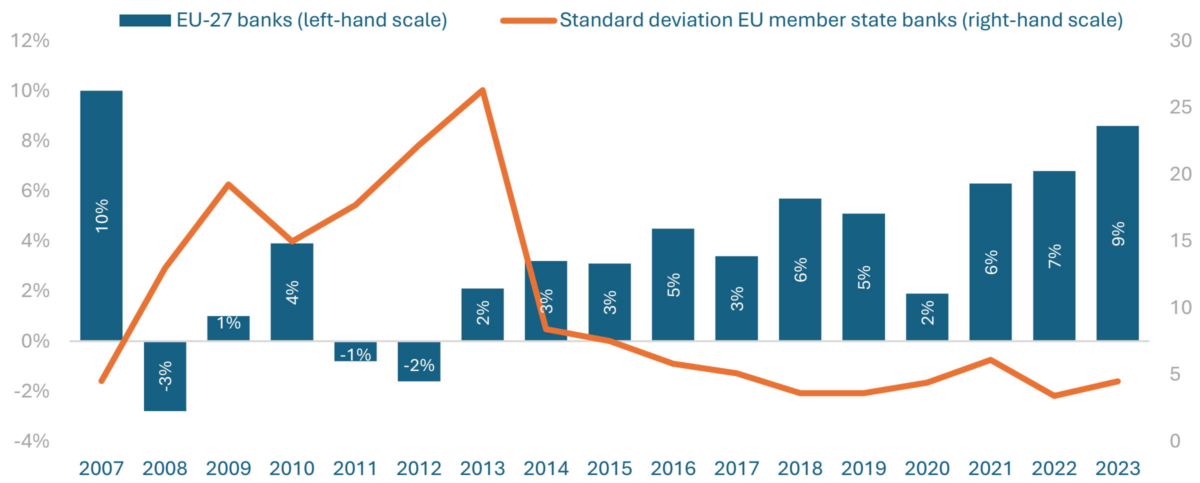
The return on equity (ROE), a key indicator to assess the banking sector's attractiveness for investors, has been slowly recovering, with setbacks in between, after sharply contracting since reaching a peak in 2007 (10.6%). After a drop in 2020 returning to levels (1.9%) seen last time in 2013, the ROE of EU banks was 8.6% in 2023.

Reflecting on the national breakdown, all countries have consecutively had a positive ROE over the past two years, with twenty-three of them having a double-digit ROE: ranging from 10.6 for Malta to 21.8% for Hungary and Cyprus. The four countries that experience a single-digit ROE respectively are Germany, France, Ireland, and Luxembourg. The difference between the highest (Hungary) and lowest (Germany) ROE was 16.1 percentage points in 2023, higher than the 12.4 in 2022 but very far from the 101.6 recorded in 2013.



The ROE across EU countries has diverged since 2007, signalling 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. Nevertheless, the dispersion went back to shrank levels over the past two consecutive years to reach 4.5 in 2023.

Return on equity in the EU



Chapter 4

Country-by country overview

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

Austria

In Austria, banks dominate the financial system with a balance sheet total share of more than 50% (Q4 2023), with a high banking density and a banking sector size in relation to GDP that is above the EU average.

The earnings position of domestic banks improved continuously in previous years, especially from 2021 onwards, mainly thanks to high operating profits and historically low credit risk costs. In an environment marked by rising interest rates, the sector's net interest income expanded by more than 30% to €25 billion. This boosted operating income by 17% year on year to €37 billion, despite fees and commissions income falling by 6%. Given that operating costs declined, the cost-to-income ratio dropped by 10 percentage points to 49%, for the first time ever reaching a level below 50%. The operating profit thus came to €19 billion. As risk provisioning remained stable year on year, profits rose by 37% to €14 billion. However, the increase was also supported by rising policy interest rates on deposits in risk-free overnight central bank accounts. Yet, also the cost side changed: Personnel cost accelerated by 13% year on year, as wage increases started to catch up with inflation. Administrative expenses rose by 5%. The biggest cost swing occurred in impairments on equity participations: one-off costs of €1.9 billion in 2022 reversed to a minor write-up in 2023. Consequently, operating cost fell by 4% to €18 billion.

An RoE of 15.7% equalled the highest yearly level of the Austrian banking sector since 2008, when the global financial crisis started. This strong result was driven by several factors:

(1) an operating income margin (OIM) of slightly above 3%,

(2) a cost-to-income ratio (CIR) of just below 50%,

(3) provisioning that only cost 14% of the operating profit (before risk) and

(4) leverage of 13 times.

Loan growth in Austria over the last ten years was primarily influenced by residential property loans and loans to companies. Due to the rise in interest rates and high inflation, growth rates have declined significantly in all segments since mid-2022 and have even been negative for property loans since mid-2023. Compared to capitalisation before 2008, this has more than doubled in line with higher regulatory requirements. At the end of 2023, the consolidated Common Equity Tier 1 capital ratio (CET1) of the entire Austrian banking sector was 17.5%, above the EU average of 16.4%. As CET1 capital increased in 2023, the leverage ratio of the Austrian banking sector rose to 8.4% at end-2023 (+37 basis points year on year). The liquidity coverage ratio (LCR) of the consolidated Austrian banking sector remained largely stable in 2023 at an average of 161%, which indicates a solid liquidity position in the short term.

At the end of 2023, the Austrian banking sector recorded an increase of the consolidated ratio of nonperforming loans (NPLs) to 2.6%, up from around 2%, where the rate had stood since 2021. Compared to historical figures, however, an NPL ratio of 2.6% is still moderate. The coverage ratio decreased on the back of new NPLs, for which provisions are still low, and the write-down of highly provisioned vintage NPLs.

Contributor: Austrian Bankers' Association - Bernhard Freudenthaler
freudenthaler@bankenverband.at

Belgium

According to the most recent country forecast of the European Commission, the Belgian GDP growth is expected to remain broadly stable over the coming years with a growth of +1.3% in 2024 and +1.4% in 2025. In May 2024, The National Bank of Belgium also estimated the economic growth to run at a comparable pace in 2024 (+1.2%), 2025 (+1.2%) and 2026 (+1.4%). Main reasons behind the moderate growth are the high inflation rates, temporary lower job creation rate and geopolitical problems, which also impacts household consumption. The unemployment rate declined slightly from 5.6% in 2022 to 5.5% in 2023, and remains below the rate of the EU (6.1% in 2023).

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 60% of the sector total at the end of 2023). 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 more specialised and active in a more limited number of market segments. Some institutions have focused on 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 80 banks established in Belgium end of December 2023, 80% are branches or subsidiaries of foreign institutions, and only 2 out of 10 have a Belgian majority shareholder ship. At the end of 2023, 13 credit institutions under Belgian law had 75 entities in 24 other countries.

At the end of 2023, the number of bank branches in Belgium amounted to 147 per million inhabitants. When adding the number of branches held by independent bank agents, this number reaches 274 per million inhabitants. The number of ATMs amounted to 5,161, including 4,056 cash dispensers. E-banking and mobile banking are on a strong rise: 15.4 million subscriptions for internet banking and 13.0 million subscriptions for mobile banking (Belgian population: 11.8 million). Since the covid period (2020), the number of cash withdrawals remains at a lower level while the number of card payments (and contactless payments) keeps on rising.

End of 2023, the Belgian banks' total assets (on a consolidated basis) amounted to €1,156 billion. Interbank claims account for 1/4th of the total balance sheet, followed by loans to households (22%) and investment in debt securities (13%). Corporate lending to non-financial companies also takes up about 13% of the total assets. 55% 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 45% of the liabilities consist of interbank debts (23%), debts represented by a security (9%), own resources (6%) and the remaining other liabilities (4%), subordinated debts (2%) and write-downs, provisions, provident funds and deferred taxes (almost 1%).

The Belgian banking sector is essential to finance the economy. In 2023, demand of companies for loans decreased throughout the year and this mainly due to higher interest rates. The average weighted cost of lending is on the rise since January 2022 as a result of the ECB monetary policy and reached its highest level in November 2023 (4.7%). After that, the rate remained stable around 4.3%.

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 up to €1,542 billion at the end of 2023. In addition to their large offer of deposit products (Belgian households, non-banking companies and public authorities had around €632 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.

The Belgian banking sector worked on its financial soundness through a phase of balance sheet deleveraging, among other things. End of 2023, the cost-to-income ratio stood at 60.3%, the return on equity (ROE) at 10.5% and the Liquidity Coverage Ratio and CET I ratio (fully loaded) remained very robust at 160.5% and 17.7% respectively. End of 2023, the NPL ratio slightly increased from 1.2% in March 2023 to 1.4% end of December 2023.

Not taking into account the persons employed by independent bank branches, banks in Belgium employ around 45,000 persons (of which almost 51% women), with 110,500 in the wider financial sector. Gender equality and equal rights are high on the agenda of the Belgian financial sector with 61 financial institutions representing over 90% of the financial sector signing the Women 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 2.2 million hours and 4% 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 financial sector is aware of the challenges ahead. The regulatory pressure and the costs to comply with all regulations continue to mount. Due to the budgetary situation of the government, taxes on banks and financial products are expected to rise, despite already being substantially high, further straining the profitability of the financial sector. Looking forward, and with a commitment to climate action, financing the energy transition for families, companies and governments is also a challenge coming quickly to the forefront. Convincing households to undertake necessary renovations in a timely manner, and ensuring the government can keep pace to spread the financing over time, will be critical. Promoting digital inclusion and financial literacy is crucial to help our citizens comprehend the financial world they live in, enabling them to make informed decisions about their financial wealth. Additionally, the sector faces other significant challenges, including cyber threats, the war for talent, digitalization and integration of AI, and so on.

Contributor: Febelfin – Tim De Vos tim.de.vos@febelfin.be

Bulgaria

In 2023 Bulgarian economy slowed its growth (1.9%) compared to the previous year (4.0%), but it remained above the average levels for the EU and the Eurozone. The economic growth in Bulgaria was driven mainly by gross fixed capital formation and private consumption.

In 2023, the unemployment rate slightly increased to 4.3% from 4.2% at the end of the previous year. The average annual change of HICP in Bulgaria declined to 8,6% from 13% in 2022.

Despite the economic challenges associated with the uncertain international environment, including close to Bulgaria, the banking sector remained stable and maintained a solid capital and liquidity position. In 2023 the banking sector operates in the conditions of the negative effects of the war in Ukraine, the uncertainty around the world and the tightening of monetary conditions in Europe and Bulgaria. The financial result of the banking system is influenced by the double-digit growth of the volume of loans in almost all business segments, which affects the net interest income and the net income from fees and commissions, the beginning of the increase in interest rates on some loans and the slower pace of an increase in the interest rates on deposits, as well as lower impairment expenses.

As of December 31, 2023, 23 banks were operating in Bulgaria, including 6 foreign bank branches. The top five banks held approximately 76.8% of all assets. At the end of 2023, the market share of four significant institutions (according to the ECB criteria) comprised 68.8% of the banking system assets, less significant banks held 28.8%, and branches of foreign banks 2.5%. In 2023 the consolidation process in the Bulgarian banking sector was marked by the acquisition of BNP Paribas Personal Finance Bulgaria EAD by Post bank (Eurobank Bulgaria AD).

In 2023 the banks' total assets increased by 10.7% year-over-year to €87.98 billion (BGN 172,08 billion). The share of loans and advances slightly increased to 60.0% compared to 59.6% at the end of 2022. The share of cash increased to 21.1% from 20.9%, and the share of securities declined to 15.1% from 15.2% a year ago.

The total outstanding amount of loans to the non-government sector (non-financial corporations and households and NPISHs) grew by 10.9% to €42.13 billion (BGN 82.40 billion) from €37.98 billion (BGN 74.27 billion) in 2022, according to the BNB monetary statistics. In 2023 the outstanding amount of loans to non-financial corporations increased by 6,9% (from 10.4% in 2022), reaching €22.50 billion (BGN 44.00 billion). By sector classification, the highest amount of loans and deposits were reported in the trade and manufacturing sectors.

As of the end of 2023, the amount of non-performing loans (NPLs), excluding central banks and credit institutions, continued to decline, reaching €1.13 billion (BGN 2.21 billion) in absolute terms, or 2.27% 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 9.5% and reached €65.2 billion (BGN 127.5 billion) in 2023, or 66.7% of GDP. Approximately two-thirds of the deposits were held by the household sector (63%).

According to the BNB interest rate statistics, the average interest rates on newly contracted term deposits and on almost all newly agreed loans (except housing loans) reported an increase by the end of 2023.

The net profit of the banking system increased by 64.4% to €1 747 million (BGN 3,417 billion). The net interest income rose by 50.4% to €2.48 billion (BGN 4.85 billion) and the net income from fees and commissions grew by 3.1% to €753.9 million (BGN 1.49 billion).

In 2023 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 2023, CET 1 of the banking system was 20.51%, and the total capital adequacy was 21.65%. The LCR stood at 246.7%, and the NSFR reached 158.1%, significantly exceeding the regulatory requirements. In 2023, ROA increased to 2.1% from 1.4%, and ROE grew to 18.5% from 12.5% a year ago.

As of the end of 2023, 62,600 people were employed in the financial sector, and approximately 25,700 of them were in the banking sector.

Contributor: Association of Banks in Bulgaria – Lyubomir Levicharov
lyubomir.levicharov@abanksb.bg

Croatia

Following a quick post-pandemic recovery in 2021-22, Croatia's economy continued to flourish in 2023, with GDP rising by 3.1% y-o-y despite weak foreign demand and high inflation. This growth was mainly driven by strong domestic demand, particularly private consumption (+3% y-o-y) fuelled by increased employment, real wage recovery, and higher consumer optimism. Government spending and investments surged due to EU-funded projects. Services exports, especially tourism, supported the growth, while goods exports fell annually, leading to a total export decrease of 2.9%. Overall, a year marked by entry into the euro area and the Schengen area, ended with GDP significantly above the prepandemic levels.

Inflation, measured by the harmonised index of consumer prices, decelerated in 2023 to 8.4%, having surged in 2022 to 10.7%. The intensity of inflation slowdown is even more pronounced when observing year-end results – inflation decelerated from 12.7% in December 2022 to 5.4% in December 2023. Even though Croatia joined the euro area at the time of elevated inflation, in line with expectations, the introduction of the euro had a relatively modest and one-off impact on total inflation estimated at 0.4 percentage points and concentrated in the services sector.

According to the ESA 2010 methodology, the general government budget showed a deficit of 0.7% of GDP in 2023, down from a surplus of 0.1% in 2022. Amid elevated inflation and real growth, the debt-to-GDP ratio decreased to 63%, even as overall debt levels rose. The Government also initiated domestic retail issuance successfully: issuing its first domestic 2-year retail bond (€1.3 billion) in March 2023 and a 1-year T-bill (€1.0 billion) in November 2023.

ECB's monetary policy tightening increased the financing costs for corporate and household sectors in banks. The average interest rate on new loans to non-financial corporations rose by 180 basis points, reaching 5.3% in December 2023. Household financing costs climbed more slowly, with rates for new housing loans and general-purpose cash loans reaching 3.6% and 5.9%, respectively. Banks' funding costs went up due to higher interest rates on time deposits. Rates on corporate time deposits began increasing in late 2022 and continued into 2023, while household time deposit rates saw a significant rise in the last quarter of 2023, hitting 2.2% at year's end, up by 200 basis points.

Rising interest rates on new loans and deposits eventually impacted existing ones. This was most noticeable in corporate loans, largely due to the EURIBOR used as a reference for variable rates (53% of corporate loans have variable rates, with 80% tied to EURIBOR). In contrast, interest rates on household loans haven't risen yet, because of longer loan maturities, a high percentage of fixed rates (around 70% had fixed rates for over a year, and 40% were fixed for over ten years or until maturity), the prevalence of the national reference rate (NRR) for two-thirds of loans, and legal caps on rates for variable interest loans.

Elevated borrowing costs and stricter credit standards led to restrained lending to businesses, while loans to households continued to grow at a robust pace. Annually, corporate loan growth slowed from 21.1% in December 2022 to 6.4% (transaction-based) in December 2023, while total household loan growth accelerated from 6.0% in December 2022 to 9.5% in December 2023, propelled by a rapid increase in general-purpose cash loans, from 3.5% to 11.1%, while housing loan growth moderated from 10.5% to 9.9%.

The growth of deposits slowed down substantially in 2023 as a result of the resupply of cash following the introduction of the euro, while the rise in interest rates reversed the trend of the years-long fall in the share of time deposits in total deposits. Corporate deposits rose markedly from the end of 2022 into 2023, with time deposits increasing by €2.6 billion and overnight deposits falling by €1.3 billion. Household deposit structure shifted largely in late 2022, showing significant growth in time deposits after initial increases in overnight deposits and decreases in time deposits earlier in the year. End-2023 household overnight deposits declined by -1.2% y-o-y, while time deposits increased by 9.5%.

The asset quality of credit institutions continued improving. The uninterrupted decline in non-performing loans paired with the increase in total loans led to a continued decline in the share of NPLs in total loans to 2.6%. Banking system profits nearly doubled in 2022, with credit institutions earning a record €1.4 billion. This boosted profitability indicators significantly: ROA reached 1.8% and ROE hit 15.5%. The primary driver of increased profits was the substantial rise in interest income following more than a decade of decline. A key factor was the significant growth from overnight deposits with the CNB, although credit institutions also increased interest income from other sources. Banking system capitalisation remained high, although the total capital ratio went down from 24.8% to 23.9%.

Contributor: Croatian Banking Association – Ivana Jović ivana.jovic@pbz.hr

Cyprus

Throughout 2023, the Cyprus economy continued to exhibit resilience and flexibility, despite the geopolitical instability and ongoing sanctions. GDP growth decelerated to 2.5% (from 5.1% in 2022), yet was among the highest in the EU as a result of the diversification attained in economic activities, for example the development of the ICT and shipping sector and the expansion to new tourism markets. Internal demand was boosted by private consumption due to the growth of disposable income of households as well as by major private investment projects.

The labour market continued to improve, with unemployment decreasing significantly to 6.1% (from 6.8% in 2022) with moderate wage demand and rising productivity levels. Inflation has decelerated significantly in 2023 and at a faster rate compared with the European Area average, reaching 3.9% (compared to 8.1% in 2022), following the gradual correction in oil prices and monetary policy tightening.

One of the important landmarks of the year was the further upgrading of the credit rating of Cyprus to investment grade from all the major credit rating agencies, reflecting the improved fiscal position as well as the ongoing reforms in the domestic banking system.

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 restructure operations and overcome challenges to finance new investment opportunities.

Following a difficult decade, the banking sector is displaying high capital adequacy, liquidity and profitability ratios, comparing favourably to other eurozone countries. In December 2023, the Common Equity Tier 1 capital ratio of the Cyprus banking sector was 21.3%, compared to the European average of 16.07% and the Return on Equity reached 24.6%, much exceeding the European average which was 9.29%. There is still excess liquidity, as evidenced by the loan to deposit ratio of 48%. The non-performing loans have continued to improve and by the end of 2023 the non-performing loan ratio dropped to 6.7%, nevertheless it remains higher than the eurozone average. It should be noted, however, that the quality of the loan portfolio has not deteriorated, despite the ECB's increases in interest rates.

The banking sector in Cyprus comprises of domestic 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 18 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, three branches of banks from EU Member States, four branches of banks from non-EU Member States and one representative office. It is noted that due to the deterioration of the economic situation in Lebanon, Lebanese banks have closed their branches in Cyprus, following a decision by the Lebanon Central Bank.

There are two local credit institutions 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.

As of the end of 2023, members of the Association of Cyprus Banks had 162 branches in Cyprus and a total of 6,477 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 2023, aggregate bank deposits remained stable at €52.2 billion (2022: €52.1 billion). Bank deleveraging is continuing, and total outstanding loans were reduced by €1.1 billion throughout 2023 to €24.8 billion as banks maintained their efforts to reduce non-performing loans (NPLs). Nevertheless, credit expansion was vigorous and during the year a total of €3.3 billion of new lending was given to firms and households.

In the area of financial education, the ACB and its member banks in cooperation with the organisation "Junior Achievement" (Cyprus) are promoting programs aimed at familiarising students in primary and secondary schools with financial literacy and entrepreneurship. These programs have been introduced since 2016 and are under the auspices of the Ministry of Education and Culture.

As part of the green transition, banks are required to assess and report on their sustainability as well as on that of their clients and set targets for improvement. In order to perform this ESG assessment for their clients, members of ACB collaborated with Artemis Credit Bureau (a subsidiary of ACB), along with ICAP CRIF S.A., a member of the international CRIF S.p.A. Group, to establish an important infrastructure Project in the field of ESG, the Interbank Project for the assessment of businesses based on ESG criteria. This Project was successfully launched in the first quarter of 2024, introducing to the Cypriot market an international, reliable tool for assessing the degree of compliance of companies regarding ESG criteria.

Contributor: Association of Cyprus Banks - Christina Antoniou Pierides c.pierides@acb.com.cy

Czech Republic

The Czech economy experienced a decline of 0.1% in 2023. This outcome, reflecting economic stagnation, was slightly more optimistic than the forecasts at the beginning of the year had suggested. Household consumption negatively impacted growth, with a year-on-year decrease of 2.9%. The reduction in inventories, which had been accumulated in previous periods, also had an adverse effect, though it led to increased exports. Export was primarily driven by the automotive sector, whose production rose by a strong 17% year-on-year in 2023, significantly mitigating a more substantial decline in both the industry itself and the overall domestic economy.

The decline in household consumption was mainly due to a drop in real wages, which in 2022 was one of the sharpest among OECD countries (-9.4%) and continued in a milder form in 2023 (-2.4%), despite the EU's lowest unemployment rate and ongoing tensions in the labor market.

Inflation in 2023 reached 10.7%, down from 15.1% the year before. The rise in prices was concentrated primarily in January, while in the remaining months, it was more moderate. The decline in inflation was driven by a slower increase in food prices and housing costs, particularly energy; however, these categories remained in double digits growth. A year-on-year decline was recorded only in the transportation category, where fuel prices fell by 12% due to a drop in oil prices on global markets. Given the gradually easing inflationary pressures from a month-on-month perspective, the central bank initiated a monetary easing cycle at the end of 2023, reducing its key interest rate by a quarter percentage point from 7% to 6.75%, with the easing cycle continuing through 2024.

At the end of 2023, there were 46 licensed banks operating in the Czech Republic. The structure of the banking sector consisted of four large banks, six medium-sized banks, seven small banks, 24 branches of foreign banks, and five building societies. The total value of the banking sector's assets increased by about 11%, reaching CZK 9,890 billion (€400 billion), representing about 130% of GDP.

After 2020, when banking sector profitability fell by almost 50% amid the COVID-19 pandemic and the effects of government restrictions aimed at managing the crisis, profitability increased at a double-digit pace in 2021 and 2022 but stagnated in 2023 (CZK 104 billion vs. CZK 102 billion in 2022 after tax).

The share of non-performing loans slightly declined from 1.95% to 1.64%, reaching historical lows. Additionally, banks maintained a consistently comfortable level of capital and liquid assets, remaining highly resilient against potential adverse scenarios as assessed by the Czech National Bank's stress tests.

At the end of 2023, the total volume of bank loans increased by 7% year-on-year, reaching CZK 4,494 billion (€183 billion). New housing loans reached their bottom in the second half of 2022 amid higher interest rates and began to slightly recover through 2023. Still, due to the high base of the first half of 2022, new production fell in 2023 by 25%, with the volume of new yearly production returning to levels last seen in 2015. The average mortgage rate was 5.9% in 2023, with its peak in December 2022 at 6.1%.

In the area of corporate financing, new loans fell by one-third amid high interest rates. A decline was seen in both Czech koruna-denominated loans (-38%) and euro-denominated loans (-27%). However, due to lower euro rates, companies shifted towards euro loans, and the share of euro-denominated loans reached 51.5% in 2023, up from 47% the year before, while the average share in the 2014-2021 period was around 30%.

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

Denmark

The Danish economy recovered quickly from the effects of the Covid-19 pandemic with a strong growth of 7.4% in real GDP in 2021 and an unemployment rate of just 2.7% - a very low level that persists today. Thus, the Danish economy was in a strong position going into the energy and inflation crisis exacerbated by the Russian invasion of Ukraine in 2022. Danish companies and households were in general also financially robust when the central banks started raising their policy rates to curb the inflation in 2022. During the environment of high interest rates, the Danish economy has shown to be remarkably strong with GDP growth in 2023 at 2.5%. Growth is partly driven by the successful Danish pharmaceutical sector operating at a globally scale, yet even excluding that sector, GDP growth was 1.3% in 2023.

At the end of 2023 there were 56 banks and 6 mortgage banks in Denmark. Persistent consolidation has implied a sizeable reduction since 2000, where there were185 banks and 10 mortgage banks, and while the consolidation is still ongoing, the trend has slowed since the aftermath of the financial crisis. However, the number of employees in the financial sector has slightly increased in the recent years, primarily due to Anti Money Laundering efforts and compliance with new regulation. The number of employees (FTE) reached 39,595 in 2023 compared with 44,958 in 2000.

After a decade of challenged profitability caused by the low-interest rate environment, the banks are now able to make profit on the interest rate margin again. The return on equity (after tax) for the Danish banking sector reached a peak level of 12% for the year 2023. In Denmark, policy rates turned negative already in 2012 and was low until the central banks started to raise their policy rates to dampen the inflation in 2022. The return on equity was 7.3% on average in the years 2013-2021. While the return on equity for Danish banks was high by European standards, it was significantly lower than in other industries in Denmark during the years of low interest rates.

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 70 percentage of total lending in Denmark.

Today, the Danish banking sector is in a well-capitalized position that contributes to financial stability, and the Danish banking sector has also played an important role in managing crisis situations in the Danish economy. For example, Danish banks offered credits to thousands of customers in temporary financial difficulties due to the Covid-19 situation. The total credit given or committed was more than 100 billion DKK (€14 billion). During the energy and inflation crisis, Danish banks provided cheaper loans for homeowners to replace fossil heating sources with green energy such as electric heating pumps.

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 have implemented. According to our sustainability report 2024, the banks have now set

CO_2 reduction targets for 80% of their investments and 61% of their lending. 78% of the Danish banking sector requires transition plans from high-emission companies. Almost the entire Danish banking sector (97%) have increased the dialogue on energy efficiency and sustainability with their customers. Almost all employees in the Danish banks have received education to strengthen their sustainability competences.

Contributor: Finance Denmark - Tina Skotte Sørensen tss@fida.dk

Estonia

The Estonian banking sector consists of 13 banks of which nine are licensed credit institutions in Estonia and four are operating as branches of foreign credit institutions. Banking sector assets constitute €40 billion equivalent to 106% of Estonian GDP (2023). The Estonian banking sector is dominated by foreign capital holding around 70% of banking sector assets.

The market is chiefly divided between Swedbank, SEB Bank, LHV Bank and Luminor Bank. Banks are serving 2,1 million private and 0.3 million corporate customers through 60 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 €29,5 billion worth of deposits and operate loan portfolio in the value of €27,3 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.

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 2023 was €940 million. The record high profitability was supported mainly the monetary policy of the European Central Bank that have substantially increased the interest revenues of the banks.

Contributor: Estonian Banking Association - Enn Riisalu riisalu@pangaliit.ee

Finland

In 2023, the Finnish economy faced several challenges. The year began cautiously, with a slight growth in GDP by 0.2% from the previous quarter, but a 0.4% decrease compared to the previous year. Investments in both private and public sectors decreased, particularly in transport, machinery, and equipment. High inflation and rising interest rates eroded households' purchasing power and consumer confidence. Despite these challenges, there were significant investments in renewable energy, with wind power capacity increasing by 25% and solar electricity production also seeing growth. However, overall, the Finnish GDP contracted by 1.0% in 2023.

Household indebtedness remained a concern, with the indebtedness ratio falling to 123.4% by the end of September due to both income growth and reduced borrowing. Households continued to increase their assets, with a notable rise in equity savings accounts and fund investments. However, the stock of household deposits decreased by over €3 billion in 2023.

The Finnish banking sector remained stable despite international financial market turbulence. Finnish banks showed good profitability and capital positions, with non-performing loans and loan losses among the lowest in Europe. The sector's liquidity improved, supported by high-quality liquid reserves. Loans to households and housing corporations saw a slight decrease, while loans to non-financial corporations remained relatively stable. The banking sector's profit increased by about 39% from the previous year, driven by growth in net interest income. The sector's return on equity (ROE) stood at 13.9%, and the cost/income ratio improved to 44.1%. Finnish banks' capital adequacy remained strong, with a common equity tier 1 (CET1) capital ratio of 18.3%.

The Finnish banking sector is characterized by its concentration, with the three largest banks (OP Financial Group, Nordea, and Danske Bank) holding significant market shares. The sector is also closely interconnected with other Nordic countries through ownership and investments. Green finance has become increasingly important, with banks playing a significant role in financing the green transition.

Finnish banks have played a central role in economic stability during the pandemic and Russia's war of aggression. Their strong capital positions and liquidity allowed them to offer flexibility in loan payments and support the real economy. The banking sector's profitability and return on equity are strong by European standards, but it faces ongoing challenges due to changing operating environments and business requirements. Banks are also integrating sustainability into their investment and credit processes, playing a significant role in financing the green transition.

Contributor: Finance Finland - Mariia Somerla mariia.somerla@financefinland.fi

France

The French economy stabilized in 2023, with GDP rising by 1.1%, after 2.6% in 2022 and 6.8% in 2021. Although the recovery seems to have been stifled by high inflation and the subsequent restrictive monetary policy, the annual level of GDP is 2.4% higher than in 2019. Household consumption is rising, but at a much slower pace than in 2022 (+0.9% vs. +3.0% in 2022). Gross disposable income rises by 8% compared with 5.2% in 2022. Thus, despite rising prices, household purchasing power per consumption unit increased slightly by 0.3% in 2023. Since the summer of 2022, French non-financial companies have faced a historic increase in their borrowing costs. However, at the macroeconomic level, the margin rate in France has been preserved. Indeed, it had fallen to 31% in 2022 with the end of the support measures linked to the COVID-19 crisis and recovered to 32.7% in 2023.

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 2023, the French banking industry counted 326 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 3.2% of total value added in France in 2023, of which approximately 60% for the banking industry. The banking industry employed 355,100 people at the end of 2023 – accounting for more than 20% of the sector's workforce in the euro area – and recruited 44,500 people in 2023. 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 15.5% at the end of 2023 (vs. 15.7% for the euro area banks).

The six largest French banking groups, which operate according to the 'universal banking' diversified model, reported a decline in revenues in 2023 after the historic year of 2022. Total net banking income stands at 146.9 billion (down 3.3% on 2022), and total group net income reaches 32.3 billion.

French banks continue to play their full role in financing the economy, providing a robust supply of credit. At the end of December 2023, outstanding loans to businesses and households stood at €3,082 billion, up 1.2% year-on-year.

More specifically, bank loans to businesses continued to grow strongly over the year, with outstanding loans up 1.4% to €1,351 billion. Investment loans were up sharply (outstanding loans of €957 billion, up 4.3% year-on-year), supporting projects and companies' drive to become more competitive. Outstanding treasury loans amounted to €319 billion.

Loans to SMEs accounted for 42% of total loans granted to businesses in December 2023 and rose by 1.8% year-on-year. Access to credit remains high: 96% of SMEs investment loans and 86% of cash credits applications were accepted in the fourth quarter of 2023.

French banks also actively finance French consumers. Outstanding household loans reached €1,527 billion at the end of December 2023, up 1,0% year-on-year. Most household loans were housing loans, representing €1,292 billion (up 0.9% 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 2023) as the cost of risk (as a proportion of average total assets it declined from 0.4% in 2009 to 0.1% in 2023).

Diversification of corporate financing is developing in France. Markets account for 34% 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. 94% of French people consult their bank's website or use their banking app, according to the study FBF/IFOP conducted in 2023.

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 (€2,2 billion, i.e. 0.02% of their total balance sheet), whereas renewable energy loan outstanding accounted for more than €73 billion in 2023, an increase of 42% over one year and 74% over two years.

Contributor: French Banking Federation – Lilian Brodier lbrodier@fbf.fr

Germany

The German economy is moving in a very challenging environment. The risks and challenges have remained high in the course of 2023. Uncertainty is dampening companies' appetite to invest and is apparently also weighing on consumer confidence. 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, as well as demographic change, which is leading to a shrinking labour force.

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 interest rate hikes followed until September 2023, when the deposit facility was raised to 4.0%.

German banks are proving to be very robust in this very difficult macroeconomic environment. Taken in itself, the end of the negative interest rate policy improves earnings prospects. However, the sharp and rapid rise in capital and money market interest rates was also associated with certain risks for the value of assets. In addition, the correction in property prices and the significant fall in demand for property loans are weighing on the banks' business situation.

Even if GDP in Germany is likely to stagnate in 2024 - from today's perspective and the ECB has already initiated the first steps to cut interest rates, the earnings situation of German banks should remain fairly stable. The equity base has been expanded strongly in recent years and provides a solid buffer. The refinancing side via customer deposits also remains strong.

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. Private banks play a key role in the German export economy. Through their subsidiaries and branches abroad, private banks 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 around 360 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 nearly 700 cooperative banks (Volks- und Raiffeisenbanken) and one central cooperative bank (DZ Bank AG). It accounts for slightly more than 50% 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 more than 50% since 2001. 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.

Contributor: Association of German Banks - Ute Schmaltz ute.schmaltz@bdb.de

Greece

In 2023, the Greek economy grew at a slowing but robust rate of 2.3% (2022: 5.7%), significantly higher than the euro area average (0.5%). Exports, private consumption and investments were the main drivers of growth.

Headline inflation (HICP) fell substantially to 4.2% down from 9.3% in 2022. On the other hand, core inflation followed an upward trend and averaged 5.3% in 2023, albeit a gradual easing was observed since mid-2023.

The labour market continued to strengthen, even though at a more moderate pace, with the average unemployment rate falling to 11.1% from 12.4% in 2022.

During the second half of 2023, three of the five credit rating agencies recognised by the Eurosystem upgraded the Greek sovereign's credit rating to investment grade (the fourth also granted Greece an investment grade rating in August 2024). In end-2023, Greek government bond yields declined significantly than those of other euro area government bonds compared with end-2022. As a result, the spread of the Greek 10-year bond over German Bunds tightened significantly to 155 basis points in 2023 from 230 basis points in 2022, whereas the spread of Greek 10-year bond vis-à-vis the respective Italian bond turned negative since May 2023.

The primary fiscal surplus turned out at 1.9% of GDP in 2023, significantly exceeding the budget target (1.1%). The increase in the primary surplus in 2023 is attributed to the timely withdrawal of pandemic- and energy-related fiscal measures, as well as to the over performance of tax revenues.

The reduction of public debt as a percentage of GDP continued in 2023, at a pace faster than all euro area countries. General government debt declined by 10.7 percentage points of GDP relative to 2022 and reached 161.9% of GDP.

Greece is one of the top performers in Recovery and Resilience Facility (RRF) funds absorption in the EU. Up to end-2023, Greece had received 41% of the available funds and is one of the few countries to have received three tranches of grants and loans, after fulfilling 23% of the agreed targets and milestones of its programme. However, there are delays in the disbursement of grants to firms, reflecting administrative hurdles. Disbursements of loans to firms also remain relatively low, despite growing amounts of signed contracts. This delays the expected growth benefit of RRF funds for later years and raises risks of incomplete absorption.

In 2023, liquidity, asset quality, profitability and capital adequacy of the Greek banking sector further improved. The improvement in the banking sector's fundamentals and prudential indicators, coupled with Greece's upgrade to investment grade, have created favourable conditions for the implementation of the Hellenic Financial Stability Fund's (HFSF) strategy to divest any stakes it holds in significant Greek banks.

Liquidity and funding conditions of the Greek banking sector improved further. The balance of residents' deposits in Greece rose by 2.3% year-on-year and stood at €201.6 billion in December 2023. This development greatly contributed to maintaining high levels of liquidity in Greek banking groups. At the same time, despite the high interest rate environment, the return to investment grade in the second half of 2023 contributed to a further decline in sovereign and bank bond yields and facilitated the access of Greek banks to capital markets.

The total stock of non-performing loans (NPLs) stood at €9.9 billion, down by 25% or €3.3 billion compared to December 2022. The ratio of NPLs to total loans for the banking sector declined further to 6.6% in end-2023, from 8.7% in 2022. The corresponding indicator for SIs fell below 5%, thus shortening its distance from the European average. For LSIs the NPL ratio remained particularly high, standing at 37.6% in 2023, down by 8 percentage points from December 2022.

In 2023, Greek banks posted profits, after tax and discontinued operations, amounting to €3.8 billion, compared with profits of €3.4 billion in 2022. Higher net interest income contributed positively, as a result of the key ECB interest rate hikes, while a negative impact came from a large decline in income from financial operations and other revenue. As a result, Greek banking groups Return on Assets (RoA) and Return on Equity (RoE) ratios stood at 1.2% and 12.0%, higher than the euro area average.

The capital adequacy of Greek banking groups strengthened considerably. In particular, the Common Equity Tier 1 ratio (CET1 ratio) on a consolidated basis rose to 15.5% in December 2023, from 14.5% in December 2022, and the Total Capital Ratio (TCR) to 18.7%, from 17.5%, respectively, bringing the CET1 ratio closer to the European average (15.7%), while the TCR still falls short of the European average (19.7%). As far as the MREL requirements build-up is concerned, Greek banks have met the MREL binding interim target set by the SRB through issuing MREL eligible instruments.

The structural financial indicators show (end of 2023) a further decline in the number of bank offices (branches) in the EU, averaging 3.09% across Member States. Decreases were observed in 24 of the 27 EU countries, ranging from -0.17% to -12.46%. In Greece, the decrease was -5.11%. Regarding the number of employees of domestic credit institutions the change in Greece was -3% (EU average: 0.36%).

Contributor: Hellenic Bank Association - Anna Vasila avasila@hba.gr

Hungary

The geopolitical tensions, especially the war in Ukraine, and the measures against the extreme inflation had major impacts on the performance of the Hungarian economy in 2023. Compared to a moderate year-on-year decline in the first half-year quarter, GDP growth in the third quarter slightly rebounded, while in the fourth quarter it stagnated, resulting a fall of total GDP growth by 0.8% in 2023. The decline was primarily attributable to lower industrial output caused by weak export markets, as well as certain market services such as transportation and warehousing, and to the retail trade sector. The construction industry's performance was also low due to lower capital expenditures financed by the state and the EU, and because of dwindling demand and construction activity caused by high interest rates. On the other hand, the recession was partly offset by recovery in agriculture, human health care, social provisions, as well as the information and telecommunication sectors. Lower household consumption, capital expenditures and exports (and primarily the export of goods) had an adverse effect, even though the faster-than-expected decrease in imports improved the overall picture somewhat.

Despite the moderate economic performance, the labour market remained tight throughout the year. The rate of employment reached 74.8%. Nevertheless, the unemployment rate went up slightly, from 3.9% at the beginning of the year to 4.2% in December, which, in conjunction with the employment figures, indicates a continued increase in the activity ratio. Declining from 25.7% in January, a level not seen for 30 years, inflation fell to 5.5% in December. Despite the fast decline, the average inflation rate in 2023 came to 17.6%, 3.1 percentage points higher than in the previous year. As another sign of lower inflation pressure, core inflation declined from 25.4% at the beginning of the year to 7.6%.

The year started with stringent monetary conditions enforced by MNB. As inflation peaked, the National Bank kept its interest rates (the 13% base rate and the 18% overnight deposit tender rate) at the high levels set in October 2022. In order to increase transmission, the Monetary Council decided to raise the mandatory reserve ratio to 10% from Q2. As most of the key factors monitored by MNB improved or stabilised, first the rates of overnight quick deposit tenders were gradually lowered then, from September, the tenders were ceased and the MNB base rate was cut month by month until reaching to 10.75% by the end of the year. The relating loss of MNB was partly rebounded by setting 0% interest rate for a quarter of reserved bank assets. The impact of measures to combat the effect of the war in neighbour, combined with the grants aimed at stimulating investment, resulted in a deficit amounted to 6.7% of GDP in the central budget in 2023. The sovereign debt ratio slightly reduced to 73.5% in 2023 from 73.9% in 2022.

At the end of 2023, the Hungarian banking sector consisted of 39 institutions. Among them are 17 commercial banks, 11 specialised credit institutions (mortgage banks, building societies, development and trade finance banks), 9 foreign bank branches and 2 guarantee institutions. The number of employees in the banking sector practically did not change in 2023 there were approximately 39 thousand employees in it, however number of branches dropped by 5% to 1429. For the country's population of 9.6 million in 2023, there were more than 10,998 million bank accounts, almost 10.085 million payment cards (out of which 9.4 million were contactless), 4,861 ATMs, 255,024 POS physical terminals plus almost 50,718 virtual ones.

At the end of 2023 almost 67% of the Hungarian banking sector was under local control. In commercial banking sector the state had negligible ownership. The value of the banking sector's total balance sheet increased by 2.9% compared to the previous year. The capital position of the Hungarian banking sector was improving in 2023. The CET 1 capital adequacy ratio (CAR) almost reached 18%, while the total CAR was at 20%. In 2023, profits of the Hungarian institutions tripled as compared to 2022 in terms of HUF, mainly due to extremely high policy rates and somewhat adjusting market interest rates. Before tax return on equity was at 19.2%.

The Hungarian domestic instant payment system (HIPS) continued it smooth operation since its launch as of 2nd March 2020. In 2023 HIPS has cleared and settled 349+ million instant transactions. The 96-97% of transactions have been credited in the beneficiaries' accounts in two seconds, in a shorter period of time than the central bank's decree requires, namely in five seconds. In 2023, the majority of volume of payment transactions were carried out electronically by customers as well. Within this, the proportion of netbank and mobile banking transactions is 76.8%. In its tendency, the proportion of netbanking transactions decreased (2022: 49.4% -> 2023: 46.5%), while mobile banking transactions increased (2022: 25.3% -> 2023: 30.4%) in 2023. The proportion of transactions submitted on paper (at the branch) is low and slightly decreased compared to the previous year (2022: 2.9% -> 2023: 2,7%). The value of loans granted to non-MFI sectors increased only by 0.5% in 2023 in terms of HUF. 49.2% of the concerning loan portfolio is provided to non-financial corporates and 34.0% to household sector. The deposit value of the banking sector – excluding interbank transactions – slightly decreased in 2023 (by 0.8%) in total, corporate and household contributed adversely, by 4.4% and minus 4.8% respectively.

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). Premium support is available only through tenders since May 2019, except the brown premium for ensuring the economic operation of existing biomass/biogas plants. Support via METÁR tenders can be granted for renewable electricity production related to a new investment, provided that the investment has not started before applying for the support. Hungarian PV capacities rose from nearly zero in 2010 to more than 7200 MW at the end of September 2024. Household-sized (not more than 50 kW) PV capacity and bigger PV power plant capacity was also growing due to favourable investment climate, investment and operational support and declining costs of PV technologies. At the end of September 2024 about one third of the PV capacity was household-sized PV. This rapid increase of PV capacity puts the flexibility of our electricity system under great pressure.

Contributor: Hungarian Banking Association – Schőner Gábor
schoner.gabor@bankszovetseg.hu

Iceland

The economy has experienced rapid growth post-pandemic, with a 5% increase in 2023 and an average of 6.4% between 2021 and 2023. Inflation has been higher and more persistent compared to most European countries. The Central Bank of Iceland (CBI) has maintained a high policy rate to slow the economy and reduce inflation to acceptable levels. Inflation is now declining, and the CBI has already initiated a reduction in the policy rate. The economy shows signs of cooling, and the CBI forecasts much lower growth in the coming years compared to recent periods. Unemployment is also expected to rise from 3.4% in the previous year to 5% by 2025.

Iceland's commercial banking sector comprises four universal banks and five smaller savings banks operating primarily in rural areas. Three of the four major banks are classified as systemically important and are subject to supervision by Iceland's Financial Stability Council. Together, these three banks control approximately 96% of the loan market share in the banking sector.

The banking sector employs about 2,500 individuals across 69 branches in Iceland. Both commercial and savings banks have closed numerous service points and reduced staffing since 2012, increasingly focusing on electronic self-service options. The demand for electronic payments, services, and digital signatures has grown in recent years, with the pandemic further accelerating this shift. Despite these changes, the number of bank branches per 100,000 inhabitants in Iceland remains significantly higher than in other Nordic countries.

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. Landsbankinn is 98.2% government owned but the Minister of Finance and Economic Affairs has begun the process of selling the governments holding in the Islandsbanki and is planning the sale of the rest of the 42,5% shares in the bank. 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.

As of 2023, total assets of deposit money banks (DMBs) stood at ISK 5.5 billion, equivalent to approximately 126% of GDP. The three largest banks hold about 93% of these assets. The total loan volume is around ISK 4.2 billion, and total deposits are about ISK 2.9 billion.

DMB lending increased by 5.6% at the end of 2023, a slower pace than the growth rates seen in 2021 (10.8%) and 2022 (22.8%). Although the economy has been cooling following a prolonged period of high policy rates, the delinquency rate for households has not shown signs of increasing and remains lower than it was in the years leading up to the pandemic.

All of Iceland's banks are contributing to the nation's sustainability efforts, each earning high ESG (Environmental, Social, and Governance) ratings and moving toward sustainable financing. The banks offer a range of green financial products, including green bonds, green mortgages, green car loans, and green deposits. Sustainability will remain a key focus for the financial sector in the coming years.

In terms of public engagement, Icelandic banks are involved in initiatives to promote financial literacy. The Icelandic Financial Services Association runs a program called Fjármálavit, in which bank employees visit grammar schools to teach students about money management and savings. Fjármálavit also participates in European Money Week.

Icelandic banks were well-prepared to handle the operational challenges brought by the COVID-19 pandemic, thanks to their strong capital and liquidity positions, which exceeded regulatory requirements. The banking sector's performance post-pandemic has been better than in the years before. Return on equity has ranged from 9.6% to 11.9% since 2021, compared to 0.5% in 2020 and between 5.6% and 6.9% in the two years leading up to the pandemic.

The three largest banks are well-prepared to face future challenges. The CBI's annual stress test shows that these banks are highly resilient to external shocks. They also have some of the highest leverage ratios in Europe, partly due to strict capital adequacy ratio regulations. However, this has placed constraints on their return on equity, which has historically been lower than the European average and the banking systems of other small European countries.

Contributor: Finance Iceland – Gústaf Steingrímsson gustaf@sff.is

Ireland

Ireland's economy posted a mixed performance in 2023, with gross domestic product (GDP) down 5.5% year on year in volume terms. However, there was a clear split between the domestic economy where personal consumption rose by 4.8% year on year and the more globalised sectors of the economy, where activity in the multinational sector fell by 16.2%.

Unemployment rose slightly from 4.2% at Q4 2022 to 4.3% a year later, while the number of persons in employment rose by 3.4% during the year to more than 2.7 million, the highest employment level on record. The gross household savings rate continued to decline as spending accelerated faster than incomes and neared pre-Covid levels at 11% in 2023.

There were 48 banks operating in Ireland at the end of 2023. These included 17 credit institutions authorised in Ireland (of which two were covered bond banks) and 31 branches of banks authorised in other European Economic Area countries that were operating in Ireland.

While the number of banks has fallen in recent years, the number of credit unions - not-for-profit, member-owned financial cooperatives funded primarily by member deposits – fell from 252 to 192 between September 2018 and September 2023 as credit unions consolidated.

The Irish government has significant stakes in two banking groups (a 41% stake in Allied Irish Banks and 57% in permanent tsb) but has gradually reduced its stakes. Both of the main foreign-owned retail banks, KBC Bank Ireland and Ulster Bank Ireland, exited the Irish market. The three main banks operated more than 400 branches nationwide by the end of 2023. There were also about 4,200 ATMs, many of which were owned by independent deployers.

Payment card usage continued to grow with almost 2.3 billion payments in 2023. At the point of sale, contactless payments accounted for 85% of domestic card payments in 2023, while mobile wallet payments accounted for almost half (46%) of contactless volumes.

The number of cheque payments continued to decline, down by 11.5% to 15 million. The use of electronic credit transfers continued to grow strongly with an estimated 125 online and mobile banking payments per capita in 2023.

BPFI analysis shows that new residential mortgage lending for people buying or building a home rose by 3.2% year-on-year to €10.3 billion, the highest level since 2008. The first-time buyer (FTB) segment grew by 8.3% year on year to more than €7.2 billion, the highest level since 2007.

Some 20% of the value of credit institution housing loans was on tracker rates linked to the ECB base rate by year end. This is 5.9% lower on the year. The share of outstanding mortgages on rates fixed for over one year increased from 58.6% at the end of 2022 to 64%. Some 88% of the value of new mortgage loan agreements were on fixed rates of greater than one year.

About half of the €35.4 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 2023, falling to €17.5 billion from €18.2 billion a year earlier. Real estate activities accounted for about 31% of non-financial credit. The value of core SME credit (excluding financial and real estate sectors) fell as businesses continued to deleverage, falling from €12.5 billion at the end of 2022 to €11.6 billion a year later.

Gross new lending to core SMEs was €4.3 billion, €174 million less than in 2022. Primary industries, such as agriculture, wholesale and retail trade and repairs and business and administrative services accounted for €749 million, €544 million and €513 million, respectively, of gross new lending in 2023.

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 and consumers. About €356 million in loans were drawn down in 2023, mainly under two SBCI schemes: the Ukraine Credit Guarantee Scheme and the Growth and Sustainability Loan Scheme.

Credit institutions had outstanding housing loans of €86.3 billion at the end of 2023. When non-banks are included the value of mortgage debt outstanding contracted by 0.6% in 2023 to €110.5 billion, with 771,000 mortgages outstanding. Non-mortgage personal credit outstanding rose by 3.8% year on year to €12.9 billion by the end of 2023.

After strong growth in recent years, the value of private sector deposits in credit institution fell by 0.8% in 2023 to €305 billion, with households accounting for almost €153 billion. Overnight deposits represented 80% of private sector deposits and 91% of household deposits.

An Post, the State-owned postal service operator, managed a further €24.7 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 almost 27,000 people at the end of 2023, according to the European Central Bank. Banks also paid some €500 million in corporation tax. Retail banks also pay an annual levy which cost €87 million in 2023.

Ireland’s exports of financial services (excluding insurance and pension services) rose by 1.9% in 2023, to €22.3 billion. Ireland was also the eighth largest exporter of financial services in the world in 2023, according to UNCTAD, overtaking Hong Kong and Switzerland since 2019.

Total credit institution balance sheet assets fell by about €20 billion in 2023 about more than €847 billion at year end. Loans to non-Irish residents in the euro area increased by 3.6% to €225 billion at the end of 2023. In terms of liabilities, deposits from Irish private-sector residents remained the key source of funding at €305 billion.

Contributor: Banking and Payments Federation Ireland - Anthony O'Brien
anthony.obrien@bpfi.ie

Italy

The Italian economy continued to normalise in 2023. After the strong post- pandemic recovery, there was a slowdown in growth, which was influenced by various factors such as high inflation, rising interest rates and geopolitical uncertainty. Nevertheless, GDP grew albeit at a more moderate pace than in previous years (+0.7%, +4.7% in 2022). Although inflation was lower than the highs reached in 2022, it remained a cause for concern and affected households' purchasing power and companies' investment decisions.

In 2023 bank lending showed a negative trend, mainly due to the effects of restrictive monetary policy and weak demand from firms and households. Specifically, bank loans to customers in Italy amounted to €1,677 billion at the end of last year, with an annual change of -3.3%. Loans to the private sector amounted to €1,430 billion, showing a decrease of 2.8% compared to the previous year. Loans to households and non-financial companies amounted to €1,288 billion, which corresponds to an annual change of -2.5%.

The decline in total loans primarily reflected the fall in loans to non-financial companies (-3.7%), which were influenced by rising interest rates on the one hand and lower borrowing requirements, due to the economic slowdown and ample corporate liquidity, on the other. The dynamics of loans to households also weakened in 2023 and showed negative rates of change from July onwards, mainly due to a slowdown in mortgage loans for home purchases. Specifically, loans to households fell by 1.3% in December 2023 (+3.3% at the end of 2022); in terms of components, loans for home purchases remained broadly stable in 2023, while consumer loans grew by +3.5%.

Despite the slowdown in economic activity, the volume of non-performing loans reported in bank balance sheets continued to fall in 2023. Over the course of the year, their value (net of write-downs) fell from €33 billion to €30 billion and from 1.5% to 1.4% of total loans, thanks to the low inflow of new non-performing loans and continued disposal measures (around €9 billion over the year as a whole).

In 2023, total bank funding (deposits from customers and bonds) in Italy recorded a slightly negative trend. On the one hand, there was significant growth in medium - and long-term funding, particularly bonds, due to rising interest rates, which made these investment instruments more attractive to savers. On the other hand, deposits recorded a slight decline. More precisely, total funding amounted to €2,041 billion at the end of 2023, which corresponds to a decrease of 0.9% compared to the previous year. Specifically, customer deposits amounted to €1,794 billion, a decrease of 3.0% on the previous year, while medium - and long-term funding via bonds amounted to €247 billion, an increase of 18.3% on the previous year.

In 2023, the capitalization of banks operating in Italy continued to improve: the highest quality capital (Common Equity Tier 1, CET1) corresponded to 15.6% of total risk-weighted assets (15.3% in 2022), in line with the average of European banks. Liquidity remained high despite the repayment of long-term refinancing operations. Profitability increased compared to the previous year: return on equity (ROE) rose from 9.0% to 12.9%.

The restructuring plans and the consolidation of the Italian banking sector, started in past years, continued in 2023. At the end of the year, Italy's banking industry (comprising bank holding groups and independent banks) consisted of 98 active banks. Banks have also continued to reorganize the distribution network: in 2023 the number of branches fell by 3.9% (to 20,160) and the number of employees by 0.8% (to 262,250).

Contributor: Italian Banking Association – Luca Luciani l.luciani@abi.it

Latvia

In 2023, the geopolitical situation, increasing prices, and rising interest rates weighed heavily on Latvia's economic development. The country's GDP fell by 0.3% compared to 2022[1]. The trend reversed with the GDP growth recovering in 2024 to 0.6%, and it is expected to reach 2.6% in 2025[2].

Latvia's A+ credit rating was affirmed by S&P Global. The agency bases the maintenance of Latvia's credit rating at A+ on the capacity of the Latvian government, membership of the Eurozone, and moderate public debt levels. The agency also mentioned the continued indirect risks from Russia's war in Ukraine, which could lead to an increase in public defence spending and put downward pressure on the economy and public finances. The Agency noted that NATO's enhanced presence in the Baltic States is facilitating closer cooperation in addressing national security risks, including cyber-security, and welcomed Latvia's energy independence from Russia[3].

In 2023, 13 banks were operating in Latvia, including 9 credit institutions registered in Latvia, and four branches of credit institutions registered elsewhere in the EU, as well as one financial holding company. The Latvian banking sector is dominated by the Nordic banking groups[4]. The banking system in Latvia is well-capitalized and profitable. By the end of 2023, the CET1 ratio of the banking system reached 19.99%, and the average RoE exceeded 19.95%[5].

Latvia is a leader in digital banking innovations and was the first in the Eurozone to introduce *SCT Inst* payments. These modern, lightning-fast transfers are available 24/7, including weekends and holidays. By 2023, over 90% of customers had access to instant payments, which have become a standard service. Last year, 52.9 million instant payments worth €22.4 billion were made through the Bank of Latvia's Electronic Clearing System. Instant payments remain on a stable path, with 31% of bank customers using them daily[6]. Over 19% of bank customers reported using smartphones for payments, and 68% used contactless cards[7].

Latvia's residents significantly increased their savings in 2023. The volume of fixed-term deposits increased from €2.6 billion to €5 billion. The total deposit portfolio increased from €21.8 billion to €22 billion over the year[8].

Meanwhile, the value of 2nd pillar pension assets reached €7.1 billion at the end of 2023; €1.4 billion more than at the end of 2022[9]. The number of members of the 2nd pension pillar reached 1.3 million[10]. The number of members in the voluntary 3rd pension pillar also increased, and the amount of savings rose by 21.2% to €0.8 billion at the end of 2023[11].

---

[1] https://stat.gov.lv/lv/statistikas-temas/valsts-ekonomika/ikp-istermina/preses-relizes/20753-iekszemes-kopprodukts-2023?themeCode=IK
[2] https://www.bank.lv/darbibas-jomas/monetaras-politikas-istenosana/prognozes
[3] https://www.kase.gov.lv/jaunumi/sp-global-apstiprina-latvijas-kreditreitingu-limeni
[4] https://www.bank.lv/en/operational-areas/credit-register/participant
[5] Latvijas Banka data "Supervisory statistics on credit institutions 2023"
[6] https://www.bank.lv/en/news-and-events/news-and-articles/news/16597-payment-radar-the-ratio-of-non-cash-to-cash-payments-in-latvia-is-73-to-27
[7] https://www.bank.lv/en/news-and-events/news-and-articles/news/16597-payment-radar-the-ratio-of-non-cash-to-cash-payments-in-latvia-is-73-to-27
[8] Finance Latvia Association compiled data on the financial sector in Latvia
[9] Latvijas Banka data
[10] https://www.manapensija.lv/lv/pensiju-2-limenis/aktualie-dati/
[11] Latvijas Banka data

The total loan portfolio slightly increased to €15.6 billion, with 57% of loans granted to companies and 43% to retail customers. Approximately one-third of the loans to individuals were mortgages[12].

Latvian bank sector assets amounted to €28.4 billion at the end of 2023[13]. Latvia's banking sector continues to embrace technological innovations, with the use of artificial intelligence increasing significantly. Several banks, insurers, and investment firms now use AI, alongside market participants from various other segments of the financial market, including insurance brokers, payment institutions, and private pension funds[14]. AI solutions not only provide better methods for processing data and improving customer experience but also simplify, speed up, and redefine traditional processes, making them more efficient. Market participants are already using AI solutions for a wide range of purposes such as claims management, pricing and underwriting, customer service, product design and development, sales and distribution and marketing, as well as everyday tasks.

Latvia has implemented one of Europe's most robust financial crime prevention frameworks. Since 2018, Latvia has successfully implemented the recommendations of the Financial Action Task Force (FATF). The country introduced a public-private partnership that allows for the sharing of detailed information, including not just typologies but also specific names, creating one of the most comprehensive systems for the prevention of money laundering. Latvia also maintains a fully accessible register of ultimate beneficial owners, with several verification mechanisms. The country rigorously enforces sanctions, adhering to the UN and the EU sanctions as well as national sanctions from the EU and NATO member states, including the U.S. OFAC sanctions. Latvia has prohibited credit and payment institutions from cooperating with high-risk shell companies, leading to the blocking, arrest, or closure of such accounts. The use of a risk-based approach, access to information, innovative technologies, and strong public-private partnerships are key pillars supporting the resilience and security of Latvia's banking sector.

Contributor: Finance Latvia Association – Lauma Brūvere lauma.bruvere@financelatvia.eu

[12] Finance Latvia Association compiled data on the financial sector in Latvia
[13] Finance Latvia Association compiled data on the financial sector in Latvia
[14] https://fintechlatvia.eu/lv/jaunumi/ertak-atrak-efektivak-latvijas-finansu-tirgus-dalibnieku-izmantotas-inovacijas/

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 2023 despite the pandemic and Russia-Ukraine conflict. In 2023, direct exports of goods by Liechtenstein companies increased by 4.7%. The average unemployment rate is with 1.4% at a comparatively extremely low level.

By the end of 2023, there were 11 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 are dependent on international market access (in particular EEA passporting). Some banks are active in Switzerland as well as outside Europe, particularly in Asia, with subsidiaries, branches or representative offices in almost 30 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 and Lombard loans. 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.

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 2023.

The earnings situation improved compared to the previous year, partly due to the international turnaround in interest rates. The result from ordinary activities (EBT) totalled CHF 784.8 million at consolidated level (previous year: CHF 753.5 million). On an individual basis, EBT also increased from CHF 278.9 million to CHF 573.5 million.

Although net new money inflows (consolidated) decreased in 2023 (CHF 30.9 billion) compared to the previous year (CHF 38.2 billion), assets under management (AuM) rose to CHF 439.0 billion on a consolidated basis and were therefore significantly higher than in the previous year (CHF 411.4 billion). Looking at the wider period, assets under management increased significantly by CHF 89.0 billion (+25.4%) at consolidated level and by CHF 16.8 billion (+9.6%) at individual institution level compared to pre-pandemic times (end of 2019).

The consolidated balance sheet total of Liechtenstein's banks fell by around CHF -4.2 billion year-on-year to CHF 102.6 billion at the end of 2023, meaning that the banking sector's balance sheet total is around 15 times Liechtenstein's GDP. The cost-income ratio of the Liechtenstein banks including foreign group companies fell slightly compared to the previous year from 71.0% to 70.7% (consolidated).

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 7.6%, both at individual and consolidated level. The high average liquidity coverage ratio (LCR) of around 180% 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 21% to Liechtenstein’s GDP and 16% to the workforce. The banks continue to be important employers. More than 170 full-time positions were created in 2023. The banking industry employs a total of 2,621 people (full-time equivalents), 38.7% of these were women. With a stake of around 37% of total corporate income tax revenue, the outstanding importance of the financial sector would be even more prominent.

Contributor: Liechtenstein Bankers Association - info@bankenverband.li

Lithuania

In 2023, the Lithuanian banking sector comprised 18 banks, 13 of which held a banking or specialized banking license, while five operated as branches of foreign financial institutions. The sector is predominantly controlled by subsidiaries of large Scandinavian banks. The two largest banks, SEB and Swedbank, both owned by Swedish parent companies, held a combined market share of 52.5%. Revolut Holdings Europe UAB accounted for 19.6%, and Luminor Bank AS Lietuvos skyrius held 13.1%. The remaining three banks, AB Šiaulių bankas, OP Corporate Bank plc Lietuvos filialas, and UAB Urbo bankas, collectively held a 10.5% market share. Additionally, 59 credit unions, grouped under the Lithuanian Central Credit Union (LKU) and the Joint Central Credit Union (KREDA), operated in the country. The Lithuanian government has no ownership stake in the banking sector.

In 2023, the number of participants in the sector decreased by one, as Danske Bank A/S Lithuanian branch fully exited the banking business in Lithuania during the second quarter. However, Danske Bank's technology and service center continues to operate in Vilnius.

Deposits continued to grow throughout the year, albeit at a slower pace than in 2022. As interest rates rose, demand deposits were rapidly converted into fixed-term deposits. By year-end, deposits had increased by 9.3%, amounting to €49.5 billion (with deposits from non-financial corporations decreasing by 0.9% and those from households increasing by 6.5%). The growth in household deposits was primarily driven by rising household incomes and higher interest rates on fixed-term deposits. Despite economic and geopolitical challenges in 2023, lending activities remained robust. The total portfolio of bank loans and prepayments increased by €4.60 billion (15.5%) to €34.22 billion. Loans to households experienced the greatest growth, rising by 9.5%, while loans to non-financial corporations grew by 3.7%.

The banking sector's liquidity position remained exceptionally strong in 2023. All banks maintained the required liquidity ratios with a substantial buffer, and liquid asset reserves held by banks were significant. However, the quality of the loan portfolio slightly deteriorated during the year. The share of non-performing loans (including loans to credit institutions) increased by 0.09 percentage points to 1.00%, with the value of such loans rising by €72.1 million (27.6%) compared to the beginning of the year.

All banks adhered to the established prudential standards in 2023, meeting both capital adequacy and liquidity requirements. The capital adequacy levels remained high, with a significant portion of liquid assets held in bank accounts, including those with the Bank of Lithuania. According to the Center of Excellence in Anti-Money Laundering, financial fraud surged in 2023. Financial institutions recorded more than 10,000 fraud cases; a 33% increase compared to 2022. The total amount swindled by fraudsters rose by 3.9%, reaching €12.3 million. Nevertheless, financial institutions successfully recovered almost €900,000, bringing net losses to €11.4 million. Over a four-year period, the most prevalent types of fraud have been phishing and investment fraud, both of which have grown significantly, as fraudsters seek to exploit the digital habits formed during the pandemic.

Contributor: Lithuanian Banking Association – Valerija Kiguolienė valerija.kiguoliene@lba.lt

Luxembourg

Luxembourg is a major international financial center located at the heart of Europe. It holds the top position in Europe for asset management and ranks second globally, as well as being a leader in cross-border insurance within Europe. The Luxembourg banking sector is highly diversified and serves as the leading private banking hub in the Eurozone. Its fund services and depositary banking are specifically tailored to support the Luxembourg fund industry's global reach. Luxembourg's corporate banks play a key role in financing European businesses, with 75% of corporate lending focused on international markets, and it also boasts a highly competitive retail banking sector.

Beyond these core industries, Luxembourg offers a unique and comprehensive financial ecosystem, encompassing the full range of services and expertise required to foster and expand the financial sector. This includes market infrastructures, law firms, consultants, education and training providers, IT partners, and FinTech companies. Leveraging these strengths, Luxembourg is positioning itself as a leader in innovative financial technologies, with close collaboration between financial institutions and FinTech firms, facilitated by the ABBL and other public-private partnerships.

Luxembourg's strong commitment to sustainable finance has also created an ideal environment for mobilizing international capital to fund green projects. The country is a frontrunner in adopting advanced solutions and implementing new approaches to ensure that sustainable finance products are widely available and constantly evolving. Today, Luxembourg holds the number one position globally for green bonds, with a 57.4% market share of European ESG UCITS assets under management (AuM) and a 76% market share of Europe's microfinance funds, both in AuM and number of funds.

Luxembourg has long attracted international financial institutions, drawn by its AAA credit rating and its economic, social, and political stability. One of Luxembourg's key strengths for clients is its ability to meet the needs of complex international and multijurisdictional situations. This global mindset is shared by Luxembourg's authorities, including the Ministry of Finance and the CSSF regulator, who are highly accessible and attuned to the unique characteristics of the financial center.

As a result, Luxembourg is globally recognized as an international financial hub. It boasts the highest rate of banking internationalization in Europe, with 92.4% of its banks being foreign-owned. Over one-third of these banks originate from outside the European Union and operate cross-border, using the EU financial services passport.

By the end of 2023, 118 banks were registered in Luxembourg, employing 26,285 people. The total balance sheet of these banks remained stable at €946 billion. Luxembourg's banks are well-capitalized, with a capital ratio of 24.73%, far exceeding regulatory thresholds and the European average, allowing them to meet potential challenges and support the economy. However, loans to non-bank customers contracted by 3.1% due to a decline in demand driven by rising interest rates. In private banking, assets under management decreased slightly for the first time in nearly two decades due to market effects, although new net inflows totaled €31.5 billion (compared to €45 billion for Swiss private banks).

Overall, the financial sector is the primary driver of Luxembourg's economy, contributing 23% (€16.8 billion) of the country's total economic output (€73.3 billion) and accounting for 14% (64,592) of total employment (458,200). About 76% of corporate income tax and municipal business tax revenue is generated by the financial sector.

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

Malta

Following the strong growth in 2022 and despite continued geopolitical risks due to the war in Ukraine and rising inflation, economic activity moderated but still exceeded that in the euro area. Real GDP grew by 5.6% (8.1% a year earlier), with a large positive contribution from net exports offsetting a negative contribution from domestic demand. The latter's increase, which was over and above its 2021 and pre-pandemic levels, was the main factor in GDP growth for 2022 adding 10.9 percentage points over the previous year. 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.

In the first three quarters of 2023, the general government deficit declined significantly compared to the corresponding period of 2022 to €295.9 million, €337.2 million lower than the corresponding period of 2022. When measured on a four-quarter moving sum basis, the deficit-to-GDP ratio narrowed from 5.6% as at end-2022 to 3.4% in the third quarter of 2023. Meanwhile, the government debt-to-GDP ratio fell by 2.0 percentage points compared to December 2022, to 49.6% of GDP. The general government net financial worth also improved as the share of financial assets in GDP rose by 0.8 percentage points to 28.9%, as at end September 2023.

The average rate of Harmonised Index of Consumer Prices (HICP) inflation was 5.6%, down from 6.1% in 2022. Though still high by historical standards, HICP inflation fell since the second quarter of the year. Consequently, inflation eased from 6.8% in January 2023 to 3.7% by December 2023.

Over the past three decades, the banking sector in Malta has grown from essentially just four retail banks serving the local population to 21 (operative) licensed banks as at the end of 2023, only three of which are Maltese majority owned. Thus, the ownership of the other banks originates from various EU and non-EU jurisdictions, including Austria, Belgium, Greece, Kuwait, Qatar, Turkey and the United Kingdom. As such, over 60% of the banking sector's total assets of around €46 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 (€32.8 billion) represented 169% of Malta's GDP. The core banks employ 81% of the sector's workforce numbering around 5,532 employees. Two of these banks are the local market leaders, holding around 64% of this cohort's assets, and their branch and ATM networks contribute to over 80% of the branches/offices of the core banks in the Maltese islands. In fact, the local banking sector maintains a strong physical presence and financial access in the market. This is highlighted by the average of 23.51 branches per 100,000 adults in 20219 (Euro area: 16.78) and the number of ATMs per 1,000 km2 for Malta at 613 (Euro area: 115).

The core banks exercise a conservative business model consisting mainly in the raising of deposits and the granting of loans mainly to Maltese residents In fact, customer deposits, of which resident deposits comprise the largest proportion, financed around 85% of the core banks' balance sheets in 2023.

Their loan-to-deposit ratio stood at 58.9% in 2023, 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, over 90% 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 20.2%) and high liquidity. Additionally, in 2023 several factors contributed to a significant increase in the core domestic banks' profitability, amongst which: the ECB's rise in interest rates significantly increased the net interest income for Malta's banks particularly since such higher interest rates were not fully passed on to depositors; the cost of borrowing for both the personal (such as mortgage loans) and corporate sectors, remained low due to the limited pass-through by banks; hence Malta's economy continued growing without experiencing the easing arising from the ECB's rate hikes and the larger banks benefited from economies of scale, allowing them to spread the cost of compliance across diversified balance sheets, revenue streams, and customer bases.

There are six "non-core domestic banks", whose assets of around €3.7 billion represented 19.1% 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 20.4%, well in excess of the requirement, these banks have a good shock-absorbing capacity to cover any 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, some of which are subsidiaries and branches of large international institutions, have almost no links to the domestic economy (less than 10% of their assets are domestic). Their combined assets of around €9.9 billion represented 51% 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 remains profitable.

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

Sources: Central Bank of Malta (CBM) Annual Report 2023; CBM Financial Stability Report 2023; Malta Financial Services Authority Annual Report 2023; EY - The Future of Banking in Malta (2024); CBM database; NSO website. Additional information on the local banking sector may be accessed from this link: https://www.maltabankers.org/future-of-banking-in-malta-report/

The Netherlands

The Dutch banking sector has proven to be stable and resilient and offers a great deal of diversity in services and products. Banks connect social goals with the real economy. Dutch banks therefore want to play an active role as both commercial players and social partners. For the latter you can think of serious involvement of Dutch banks in financial education of children and financial wellbeing in general for example providing customers with advice on sustainable housing to prevent energy poverty.

The sector is relatively large in size, almost 3 times the size of the Dutch economy (GDP), totaling €2,700 billion in assets. It's also concentrated with the six largest Dutch banks accounting for about 85% of total assets of the sector. It's employing 118,000 people worldwide of which 67,883 in the Netherlands itself. The ownership structure of the three major banks is diverse. The largest bank is publicly listed, the second largest has a cooperative structure and the third largest is partly state-owned.

After the early 2023 banking turmoil in the US and Switzerland, the Dutch Central Bank restated Dutch banks are well capitalized, have sufficient liquidity, and are profitable. The average Core Equity Tier 1 capital was slightly above the European average mid-2023.

In the Netherlands about three million households have a mortgage at a bank with a total value of €566 billion euro's which is 69% of total mortgages in the Netherlands. In European perspective, the Dutch housing market is unique because of its relatively high LTV's. These relatively high private debts are offset by large savings totalling around €600 billion and pension fund assets totalling roughly € 1,800 billion.

Consumers in the Netherlands have access to efficient and innovative payment systems with banks offering payment packages at relatively low cost which are on average 30% lower than the European average. Cash payments are still going down, and are only 20% of total payments in the Netherlands. Furthermore, Dutch Parliament agreed to introduce a € 3,000,- cash payments limit to reduce the risk of money laundering.

Banks play a vital role in the financing of Dutch companies, certainly to SME's. Banks are working together with public and private sector stakeholders to further enhance business environment in the Netherlands, for example in the elaboration of the national SME Financing Agreement and the development of a SME Financing Hub. Furthermore, banks agreed on a base level of how to treat small entrepreneurs during all steps of the financing process in a special Code of Conduct 'Small business finance'. Total lending to businesses adds up to €298 billion with Dutch banks being the largest financer of SMEs, with the three largest banks providing a total of €119 billion in financing to SMEs).

Dutch banks are very committed to supporting and stimulating the transition to a sustainable economy. The Dutch financial sector has therefore set an international example with the 2019 Climate Commitment, in which banks pledged to reduce emissions from their financing and investments. All financial institutions have since then published an action plan. 69% of the financial institutions that are part of the Climate Commitment indicated that they are 'on track' with regard to their CO2 reduction targets. The introduction of the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) should provide coherent, standardized disclosures by non-financial corporations as a crucial prerequisite for properly mapping the sustainability profile of banks' portfolios. To help customers with this reporting the Dutch Banking Association together with 8 banks started the 'ESG-data project'. By setting uniform definitions and calculation methods corporate clients should be able to report efficiently on sustainability leading also leading to comparability and transparency between banks.

Contributor: Dutch Banking Association – Pieter Joost van den Bos bos@nvb.nl

Norway

The Norwegian economy has performed reasonably well in recent years, although the GDP growth for Mainland Norway declined somewhat in 2023. Unemployment has remained low, and the housing market has been quite stable despite the key policy rate being increased from 0% to 4.5% from September 2021 to December 2023. Housing investments has declined and contributed to dampening the growth in GDP.

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 2023, there were 124 banks operating in Norway. 106 were Norwegian and 18 branches of foreign banks. The market share of the subsidiaries and branches of foreign banks were 23% and 36% 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. Mergers between savings banks has been observed in different variations, including 2-3 smaller banks merging, large and small bank merging and between 2 larger entities. The number of Norwegian banks has gone down by 19 during the last 5 years.

At year-end 2023, the aggregate assets of the banking sector (including foreign entities) amounted to around €743 billion. The Norwegian banks' return on equity were 14.0%, an increase of close to 2 percentage points from 2022. The increase in ROE was particularly due to higher net interest income.

The capital adequacy in Norwegian banks (CET1 calculated as a weighted average) was 18.4% in 2023, more or less unchanged from the year before. The leverage ratio was on average 7.7%. In 2023 the Ministry of Finance increased the systemic risk buffer requirement from 3% to 4.5% for credit institutions using the standardised method or foundation IRB to calculate credit risk. The increase was imposed for credit institutions using advanced IRB already from 31.12.2020. The countercyclical capital buffer also increased in 2023. The requirement was tightened from 2% to 2.5% coming into effect from 31.03.2023.

As more and more people are using banking services online, the number of physical branches has decreased significantly over several years. More digital banking has given the banking sector large productivity gains and hence lower costs. In 2023, the cost/income ratio in Norwegian banks were on average 39.0%, a record low level according to the FSA.

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 proven to be a stable source of funding, also during financial turmoil. The guarantee provided by the Banks' Guarantee Fund covers up to NOK 2 million (approx. €175,000) per depositor per bank. Deposits from customers increased by 3.8% in 2023.

Credit growth has been on a declining path throughout the year but ended at 4.6% growth compared to 2022. For retail customers the lending growth has been negative for branches of foreign banks (-2.5%) but remained positive (3.3%) for Norwegian 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 2023).

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.

Contributor: Finance Norway - Michael H. Cook mhc@finansnorge.no

Poland

The year 2023 was mixed to both the Polish economy and the Polish banking sector. The economic growth was very moderate in comparison to year 2022. In year 2022 higher growth rate was the result of post pandemic recovery. In year 2023 Polish economy faced the consequences of the outbreak of the war between Russia and Ukraine. The sanctions imposed by the EU on Russia generated the collapse in the trade with this country which had quite important impact on domestic economy. The annual rate of growth was about 0,3% (in comparison with 5,3% in previous year). The war and the economic sanctions have caused the growing inflation

In the banking sector, the picture was also mixed. The higher inflation, higher prices of flat renting and cost of living have caused the limited demand for credit. Banks observed small demand for nearly all types of credit: mortgage credit, consumption credit, investment credit. New public program supporting the credit repayment granted by banks for own housing purpose of creditors, which was set up in the second half of the 2023, allowed to increase total portfolio of mortgage credits in Polish banks.

The result for 2023 indicated the deep decreased share of credit in bank assets and at the same time rapidly growing share of treasure bonds and short-term papers issued by the central bank in order to stabilize the liquidity situation on the financial market.

The growing inflation have caused higher interest rates established by the central bank. Admittedly, in the third quarter the Polish National Central Bank (NBP), unexpectedly for market participants, reduced the interest rates by 100 bp but they remained on very high level. This situation allowed banks to generate higher profits, much higher in comparison to the previous years.

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 2023, the Polish financial landscape was made up of 29 commercial banks, 492 cooperative banks and 34 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 56,4% of the sector's total assets, while 43,6% were controlled by foreign entities (0.9 percentage points more than in 2022).

Due to the requirements of the CRD IV package, and in reference to national regulations, the big majority of cooperative banks are members of the two Institutional Protection Schemes. 7 bigger cooperative banks were not the member of IPS. Despite the large number of this kind of institutions, their market share remains stable at the level of 7% of the sector's total assets.

In 2021, the Polish banking sector's assets totalled €692 billion. The value of the total balance sheet increased by 10,9% comparing to the previous year. However, the size of banking sector, relative to GDP, remains quite low in comparison to other EU economies (88,6% at the end of 2023) and it was lower than in the previous years (the highest was in 2020 -100%).

The credit portfolio from the non-financial sector plays still dominant position in total assets (36,9%) but its dominant role is not so drastic it was in past. Nowadays, the assets in form of the securities play constantly bigger and bigger role. We can expect that 2024 assets in securities may be bigger than credit portfolio from non-financial sector.

At the same time the bank liabilities from non-financial sector raised by 9,9%. The household deposits represent 69,2% 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 2023 return on equity (ROE) of 12,1% and return on assets (ROA) of 0.97%. Although far from ideal, these results were two times better than those achieved in 2022 and much better than in previous years. 90% of bank income is generated by the interests, only 10% are the non-interest position.

The average TCR in the domestic banking sector remained at the stable level. At the end of 2021 the ratio was 21,7%, and the Common Equity Tier 1 and Tier 1 capital ratios were estimated at 20,1%.

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 to 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.

Contributor: Polish Bank Association - Katarzyna Pawlik KATARZYNA.PAWLIK@zbp.pl

Portugal

The Portuguese economy grew by 2.5% in 2023, reflecting the positive contributions from the domestic demand (1.7 percentage points) – private consumption increased 2.0% and investment 3.6% – and net external demand (0.8 percentage points), with exports growing 3.5%. Inflation fell, averaging 4.3% in 2023 (7.8% in 2022), with core inflation falling to 5.0% (5.6% in 2022).

In the context of geopolitical tensions, inflation, economic slowdown and high interest rates, the Portuguese banking sector continued to show resilience and to deliver progress in terms of profitability, liquidity and capital levels.

The banking sector comprised 142[15] institutions: 62 banks, 77 mutual agricultural credit banks, and three savings banks; with the five largest banks accounting for 72% of total assets. Domestic employees represented approximately 1% of the country's employment, of which 51.6% of the working force were women and 70.7% of the employees had higher academic qualifications.

Total assets remained stable year-on-year (-0.1%), as the increase in debt securities (+8.8%) was offset by the reduction in cash/liquidity (-7.2%) – with deposits at central banks decreasing 4.7% –, in loans to credit institutions (-8.0%), and in loans to customers (-0.6%). In the domestic activity, loans to non-financial corporations fell 0.7%[16], to €73.5 billion, and loans to households fell 0.4%[17], to €127.9 billion, largely driven by the decrease in new loans for house purchase. The share of variable rate loans in the stock of loans for house purchase stood at 80% (89% in December 2022).

Since the June 2016 peak, the NPL ratio decreased from 17.9% to 2.7%, with non-performing loans falling by €41.9 billion, and the NPL coverage ratio increasing from 43.2% to 55.4%. In 2023, the net NPL ratio stood at 1.2%.

Customer deposits fell 0.4% year-on-year, largely explained by the subscription of saving certificates (public debt) and repayment of household loans. As a result, the loan-to-deposit ratio decreased to 78.0% in December 2023 (-0,2 percentage points year-on-year). Also, in the context of sharply rising interest rates, there was an increase in the share of term deposits to 48% (40% in 2022).

The liquidity coverage ratio and the net stable funding ratio rose to 254.5% and 150.6%, respectively (229.3% and 145.8% in 2022, respectively).

Solvency was reinforced once again due to rising profitability and falling risk-weighted assets: CET1 stood at 17.1% in 2023 and is at historically high levels.

Net income attributable to shareholders reached €5.223 billion (€2.996 billion in 2022), as the increase in net interest income, which benefited from rising interest rates, more than offset the increase in provisions and the flow of credit impairments and operating costs. RoE stood at 14.8% in 2023 (8.7% in 2022), and the sector's efficiency improved further, with the cost-to-income ratio falling by 13.6 percentage points year-on-year to 37.0%.

[15] Source: Banco de Portugal.
[16] Annual growth rate adjusted for securitization and liquidity-providing operations.
[17] Annual growth rate adjusted for securitization and liquidity-providing operations.

Strong progress continued to be achieved regarding the sector's digital transformation. Internet banking users increased to 68.6% in 2023 (38.1% in 2010) and 70.3% of current accounts had online access. The number of payment cards issued totalled 25.1 million (+4.2% year-on-year), the number of online purchases represented 15.7% of card purchases (14.0% in 2022) and card payments using contactless technology increased by 31.1% in volume and 32.7% in value. In 2023, this technology was used in most card purchases (53.3%), accounting for 38.9% of the respective value.

The Portuguese government is strongly committed to promoting a more efficient, sustainable and inclusive economy. Portugal has ambitious targets regarding reductions in GHG emissions, aiming to be carbon neutral by 2045, five years before the targets set by the EU. The Portuguese National Recovery and Resilience Plan is committed to having at least 38% of expenditure on investments and reforms supporting climate objectives.

In 2023, for the first time, to comply with a requirement of the Climate Framework Law, the Bank of Portugal published its Annual Report on the Banking Sector's Exposure to Climate Risk, analysing the potential impact of climate-related physical and transition risks on the Portuguese banking system.

Two key initiatives in the ESG domain were launched by the banking system in 2023: (i) a cooperation protocol between the Portuguese Banking Association, ADENE (the Energy Agency) and several credit institutions to exchange information on energy efficiency of buildings' indicators, as well as on lines of credit to promote the renovation of buildings; and the (ii) creation of an ESG Ecosystem, fully funded by the banking sector, led by a payment services provider, and created in partnership with three consultancy firms and a legal firm, to collect ESG data from SMEs and to help financial institutions ensure regulatory compliance, minimizing investments, and operational costs.

Contributor: APB - Portuguese Banking Association - Teresa Martinho teresa.martinho@apb.pt

Romania

In 2023, the Romanian real GDP had an increase by 2.1%, after an advance of the economy by 4.1% in 2022. For this year, the forecasts mention an economic growth between 2.5 - 2.8%.

In December 2023, the annual CPI inflation stood at 10.40%, which was lower than the 2022 level of 13.80%.

Last year, the general budget execution closed with a deficit of 6.6% of the GDP, higher than the one of 2022 when the budget deficit stood at 6.3% of the GDP. During 2023, the balance of payments' current account posted a deficit of almost €22.7 billion, according to the National Bank of Romania's data, lower by 12.84% compared to the previous year when the deficit stood at about €26 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 2.9%.

The banking sector of Romania has an adequate stance as regards its prudential and financial ratios, almost all of them standing above the averages of the European Union banking sectors. Banks in Romania are sound and well capitalised, their capital adequacy ratio reaching 23.60% in December 2023 which is three times over the requested minimum. When it comes to liquidity, the ratios stand at comfortable levels and, in addition, banks' balance sheet structures post liquid assets. The provision coverage for NPLs was 65.08% in September 2023, thus providing for stability and resilience. The NPL rate stood at 2.37% in December 2023, a slight difference compared to the European average.

For 2023, the data on lending showed an increase in non-government credit by 6.4% to €77.81 billion. The volume of new loans granted by the credit institutions of Romania during January 2020 – December 2023 (marked by the coronavirus pandemic and the effects of the war in Ukraine) stood at 461 billion lei. The new loans granted during these 4 years exceed by over 19% the non-government credit balance at the end of December 2023 and represent the equivalent of one third of Romania's Gross Domestic Product. Last year, the banks operating in Romania granted new loans to the population and to companies amounting to 140 billion lei, up by 10.41% compared to the volume of the new loans granted in 2022. The loans-to-deposit ratio decreased to 67.82%.

Romania has extraordinary potential when it comes to economic development via credit. In Romania, the financial intermediation level calculated as the weight of non-government credit against the GDP stood at 24% in 2023 compared to the European average of 90%. Last year, saving advanced by 11.8% to €115.37 billion.

The banking sector's assets stood at €161.5 billion, the advance being of 14.6% compared to 2022, this figure proving the size of the funding granted to the economy. In 2023, about 65.6% of the Romanian banking sector's assets were held by institutions with foreign capital.

At the end of 2023, the Romanian banking sector included 32 credit institutions: two banks with full or majority Romanian state-owned capital, four credit institutions with majority domestic, private capital, 18 banks with majority foreign capital and eight branches of foreign banks. Contemplating the expansion of digitalization and the optimization of operational expenses, the banks' branch network shrank to 3,500 bank outlets while the number of employees stood at 51,500.

Banks' good results are due to the increase in their lending volume, more efficiency contemplating digitalization and the reversing of some provisions established during the pandemic years when risks were higher. In the banking sector, the return on assets (ROA) and the return on equity (ROE) stood at 1.8% respectively 20.13% at the end of 2023.

The financial inclusion level among Romanian adults has advanced to 71%, up compared to the level we had 2 years ago of 68%, shows a market research called "The perception of the Romanians regarding the banking sector: lending and financial inclusion for the Romanians", conducted by the Romanian Institute for Evaluation and Strategy. The highest weight of the people who do not have current accounts is among the persons with a poor education, with low income and with an average age of over 65 years, despite the current basic payment account being opened by banks free-of-charge. In 2023, in Romania, the GDP/capita stood at €10.250.

Banks continue to be concerned with intensifying digitalization while providing for cyber security to render costs more efficient and enhance customer satisfaction. The banking sector of Romania is strong and resilient, and it can carry out its implicit mandate i.e. enhancing financial intermediation on sustainable basis.

Contributor: Romanian Association of Banks - Gabriela Folcut gabriela.folcut@arb.ro

Slovakia

In 2023, the Slovak economy continued to grow, but at a slower pace compared to the pre-pandemic period. The economy benefited from a fiscal expansion aimed at mitigation the negative impact of high energy prices and rising inflation.

After several years where household consumption significantly contributed to economic growth, the situation has shifted. In response to declining real incomes, households have reduced their spending. The economy growth was driven by industrial production, mainly from automotive sector. Other sectors were more affected by the decline in external demand. Despite facing higher prices and interest rates, firms managed to sustain their investment activity levels and positively contributing to economic growth.

Due to energy aid and increased government spending the fiscal deficit has widened from 1.7 to 4.9 % of GDP in 2023, returning to the high levels seen during the pandemic years. Government debt reached 56.0 % of GDP. Despite the economic slowdown, the labour market remains stable. Inflation has declined from comparatively elevated levels in 2022 but remains among the highest in the euro area.

The Slovakian banking sector consists of 24 financial institutions with banking licences. Most of them are universal banks, focused on retail and corporate banking. Only two of them are specialised banking institutions (building society and a state-owned development bank). Most of the banks in Slovakia are controlled by foreign entities (94.9%), mainly banking groups from Austria, Italy, and Belgium. Only three banks are fully controlled by domestic investment groups (two 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 60% of the banking assets.

In comparison to the national GDP, the banking sector is one of the smallest in the EU. Funding of Slovak 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 in previous years.

Retail loans have been dominating the domestic lending market. In previous years Slovakian banking sector had one of the highest growths in housing loans in the eurozone. In 2023 domestic lending rates have increased with the ECB policy rate and credit growth has declined. The mortgage lending market stabilised at new lower levels later in 2023. Consumer credit began to grow again from early 2023, primarily driven by the increased need for financing due to higher inflation.

As a result of higher interest rates, the growing revenues from core banking activities have reflected in the growth of nominal profits. A similar development occurred in other eurozone countries; however profit increases were in many cases much higher than in Slovakia. Therefore, despite historically highest profits, Slovak banks achieved relatively low profitability compared to other EU countries. Despite this, the new government introduced an extraordinary levy on the banking sector from January 2024, which is one of the highest among EU countries. The expected effective tax rate for banks in 2024 will be twice as high compared to other companies. The new levy could prevent the build-up of bank capital buffers, stifle credit growth, and put upward pressure on mortgage rates.

Slovak banks are among the leaders in the use of new technologies in day-to-day banking e. g. contactless cards, mobile and instant payments. Digitalization has affected the banking industry. The Slovak banks have 910 branches and 17,059 employees, which is slightly fewer than in previous years. On the other hand, the number of card transactions has been growing for several years. Mobile payments are becoming more popular in Slovakia year by year. While in 2019, the share of these payments was 2.16% of all card payments, in the year 2023, it was already more than 25%.

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 or European money quiz.

Contributor: Slovak Banking Association - Marcel Laznia marcel.laznia@sbaonline.sk

Slovenia

After a very strong growth in 2021 (+8.1%) and in 2022 (+2.5%) the GDP growth rate in 2023 moderated to 1.6%, which was still significantly above the 2023 growth rate both in the Euro area (+0.4%) and EU (+0.4%). Growth which was accelerated in the last quarter of the year was driven by strong domestic demand, including construction investments, while additionally net exports were also a strong growth contributor, which was reflected in current account balance surplus of 4.4% of GDP, as the imports fell faster than exports. The situation in the export sectors of the economy started to improve towards the end of 2023 but remained below 2022 levels.

Additionally, the rebound of GDP growth was also boosted by the reconstruction activities after devastating floods which affected several Slovenian regions and caused substantial damage to property and infrastructure. Also, the effect of high energy prices, which had the biggest impact on energy-intensive industries in 2022, have receded somewhat in 2023 and it had a beneficial effect for economic activity.

Labor market in Slovenia remained tight and unemployment rate decreased to 3.7% in 2023 and is expected to remain stable around this figure. Expectedly, wages have increased by 12% in 2023 and are anticipated to continue to grow in 2024, although at much slower pace. Inflation dropped to 7.6% in 2023 after a record level of 8.8% in 2022 and is forecasted to further decline in 2024. The fiscal position of the country remained stable despite the fiscal measures that were activated to mitigate the impact of elevated energy prices and despite the extraordinary expenditures for reconstruction after the floods which amounted to 0.4% of GDP. So, the general government deficit stood at 2.5% of GDP and government debt-to-GDP ratio at 69.2% in 2023.

As of year-end 2023 there were 9 commercial banks, 1 development and export bank (100% owned by the Republic of Slovenia), 3 savings banks and 2 branches of foreign banks operating in Slovenian banking sector. Total assets of the banking system increased by 5% in 2023 and reached €53.1 billion at the end of the year, which was equivalent to 83% of GDP. In February 2023, the OTP Bank Nyrt. (Hungary) took ownership of NKBM d.d., which was the second largest bank in the market at the time and, alongside SKB d.d., became the second bank owned by the OTP Group in Slovenian banking market. As a consequence, the merger process between the two banks was also launched, which foreshadowed the emergence of a second largest bank on the market, which together with NLB d.d. would represent a market share of around 60% as measured by total assets. The successful completion of this transaction would also bring to an end the process of bank consolidation in the post-2013 period, when the state had to carry out the rehabilitation of the country's largest banks, with a commitment to privatization and consolidation of the market.

In year 2023 banks were benefiting from the reversal in the monetary policy of the ECB and adjusted their lending rates upwards, while at the same time there was no significant monetary policy trans-mission in deposit rates, as the bulk of the deposits remained on demand and there was only a limited adjustment to interest rates on time deposits. On the other side, average interest rates on loans to households rose to 4.0% for housing loans and 6.8% for consumer loans, respectively. The interest rate dynamics together with a weak demand for credit on the side of corporate borrowers due to global economic development as well as geopolitical uncertainties, also contributed to negative growth of loans (-4.9% annually) to non-financial corporations, while the total demand of households for credit was kept at +3.4. Decelerated credit activity of banks in 2023 reflected also lacking investment opportunities in Slovenian corporate sector since there have been signs of deteriorated competitiveness as a result of unfavorable tax burden and declining productivity. Despite that the reports of Bank of Slovenia show that credit risk exposures in banking sector were kept at a moderate level. At the same time banks increased substantially their holdings of liquid assets (+22.2%) and investments in securities (+12.1%), especially investments in debt securities (+23.7%) in year 2023.

A heavy reliance of banks on the deposits, as a major source of funding, continued in 2023, with non-banking deposits representing 77.4% of total liabilities, although their rate of growth decelerated in 2023 and ended up at +3.3% annually. In the total volume of households' deposits with its 49.9% share in total liabilities represented the largest portion of deposits and have increased by 2,8% in 2023.

Profitability of the banks in Slovenian banking sector, as measured by ROE, improved from 10.8% in 2022 to a record level of 20.6% in 2023, as a result of a favorable interest rated dynamics and beneficial cost-effective structure of deposits and especially related to very high excess liquidity position and deposits with central bank now bearing a positive interest rate. Net interest income almost doubled in 2023 as compared to 2022 and the net interest margin reached the level of 2.95% at the end of the year, while non-interest income decelerated by -5.6% in 2023 and thus bringing the net non-interest margin down to 1.05% only.

Banks' high profitability also allows them to maintain and improve capital adequacy and therefore it comes as no surprise that banks also achieved high capital adequacy ratios during the year 2023. So, the total capital ratio and the common equity Tier 1 capital (CET1) ratio on a consolidated basis reached the level of 20.3%, and 17.7%, respectively, which was above the level achieved in the euro area, where total capital ratio stood at 19.4% and CET1 ratio at 15.9%.

Banks have proved to be resilient to shocks and excess risk-taking in recent years. This was also demonstrated during the floods that hit some Slovenian regions in August 2023. Despite the significant material damage to local communities and households, banks were not affected by any major consequences, while at the same time they immediately provided financial assistance to those affected by the floods. In conclusion Slovenian banks in recent years as well as in 2023 further strengthened their capital position, which makes them even more stable and resilient.

Contributor : The Bank Association of Slovenia - Aleksandra Zibrat Aleksandra.Zibrat@zbs-giz.si

Spain

The performance of the Spanish economy was markedly positive in 2023, with GDP growing by 2.7%, well above the euro area average, mainly supported by (i) touristic services exports and (ii) significant migration flows, thanks to which the labour market has proved resilient. Headline inflation continued to decline to 3.4%, heading towards its medium-term target, while core inflation is slightly higher (4.1%) due to the stickiness of services inflation. In the first half of 2024, the Spanish economy continued to show resilience, with continuous upward revisions to expected GDP growth, while the disinflationary process is on track. However, some challenges remain in the medium term: (i) high debt and deficit ratios, which need to be addressed through a multi-year fiscal consolidation plan; (ii) double-digit unemployment, despite recent progress in the labour market; (iii) subdued investment (below end-2019), dragging productivity growth; and (iv) housing supply shortage, which could act as a bottleneck to economic growth.

With regard to the structure of the Spanish banking system, it is made up of 149 credit institutions, of which 10 are significant institutions directly supervised by the ECB. The remaining 139 are directly supervised by the Bank of Spain, of which 47 are less significant institutions and 92 are subsidiaries or branches of foreign institutions.

The Spanish banking sector is based on a retail-centric business model in a highly competitive and dynamic market. For this reason, Spanish banks operate on an omni-channel basis. On the one hand, the branch network, the second largest in the euro area in terms of number of branches per inhabitant, with around 18,000 branches in Spain, provides an enormous capillarity to banking activity. On the other hand, banks continuously invest in digitalization, safety and innovation to adapt their activities to a fast-changing environment. New digital sales account for almost 70% of total sales and digital customers represent close to 80% of the customer base. In addition, banks are developing innovative solutions to provide better services for their customers. An illustrative example is Bizum, a successful initiative for instant payments thanks to the collaboration of private banks, with 27 million customers and almost 950 million transactions per year.

Banks also contribute to economic and social progress by providing financing to the real economy, enabling households and businesses to meet their financial needs. In this context, loans to households' amount to more than €1,300 billion and loans to NFCs approx. €850 billion. Besides, nine banking groups (87% of the system by total assets) are members of the NZBA and the amount of green loans, which has increased significantly in recent years, has surpassed that of green bonds, thus reinforcing the banks´ commitment to financing the green transition.

In 2023 the sector´s activity has been impacted by a restrictive monetary policy. Against this background, new financing to households for house purchase and financing to large corporates, which postponed investments, declined year-on-year. Nonetheless, this trend has reversed by mid-2024 in the context of a loosening monetary policy, as new loan volumes are growing in all segments (SMEs, large corporates, house purchase and consumer loans), acting as a lever to counterbalance the negative impact of declining interest rates on margins.

Compared to the EU average, the Spanish banking system provides new financing at a lower cost than its European peers, with an average rate on new loans to households for house purchase and to SMEs 26 basis points and 29 basis points lower respectively in Spain as of December 2023. On deposits, despite a lower remuneration than European peers, both retail and corporate customers increased their deposit base by 7% and 8% year-on-year, respectively.

As a result of its business model, the Spanish banking sector ranks better than most of its European peers in 2023 in key metrics, as reflected by a significant improvement in profitability, with double-digit ROE (around 12%) and efficiency below 48%. Capital (13.21% CET1) and liquidity (186% LCR) ratios remain well above regulatory requirements and asset quality ratios have stabilized at low levels with NPLs (3.16%), despite increasing pressure on debt repayment capacity due to higher interest rates. The results of the 2023 EBA stress test show the resilience of the banking sector in a potentially adverse scenario, being the banking system with the lowest CET1 depletion among the major EU economies. The outlook for 2024 looks promising, with all of the above metrics improving by mid-2024, supported by a better-than-expected operating environment.

In May 2024, the Bank of Spain announced a revision of its framework for setting the CCyB. As a result, a positive CCyB rate of 1% will be set when cyclical systemic risk is at a standard level and will be imposed only on Spanish exposures. This buffer will apply phased-in (50 basis points) from 1st October 2025 and fully loaded (100 basis points) from 1st October 2026.

In conclusion, the Spanish banking system is more profitable, better capitalized and better prepared to weather through an uncertain environment.

Contributor: Spanish Banking Association – Ricardo Sanz-Ramos rsanz@aebanca.es

Sweden

The Swedish banks are important to the Swedish economy and employ 2% of the workforce, account for 5% of GDP and pay 10% of the corporate taxes.

In December 2023, Sweden had a total of 124 banks, comprising 42 Swedish commercial banks, 36 foreign banks, 44 savings banks and two co-operative banks. The number of commercial banks and foreign bank branches in Sweden has increased from 67 in 2013 to 78 in 2023. The increase is largely explained by credit-market companies that have transformed into commercial banks and foreign banks starting operations in Sweden. Among the commercial banks 36 are foreign banks.

There were 959 bank branches in Sweden in 2023 compared to 1,781 bank branches in 2013. 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 44,500 employees in Sweden compared to 106,000 in the whole financial sector.

The banking market in the Baltic States is important for the major Swedish banks as well as the market in the other Nordic countries. One of the largest banks in Sweden is the branch to the Finnish bank Nordea.

The payment market in Sweden is highly digitalised. 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. Swedes uses non-cash payments to a large extent 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.

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 2,190 million transactions in 2012 to 3,865million transactions in 2022.

According to the Riksbank, the Swedish central bank, 80% of Swedish citizens have used a debit card in the past month and 20% have used a card in their mobile phone (Apple Pay and Samsung Pay). The past month 80% have used the Swish mobile payment service. Swish, which was introduced twelve years ago and offers real-time account-to-account transfers, has 8.5 million users, corresponding to around 80 % of the Swedish population.

Deposits account for 36% of the household financial assets in 2023 and is the most common household financial asset, followed by mutual funds, 24%, and shares, 20%. It is common for individual customers to have bank accounts and other financial assets in more than one bank.

Residential lending is important on the Swedish lending market and 91% of the household loans are to residential property. Household lending increased by 0.2% on an annual basis in December 2023 compared to 3.7% previous year. The slowdown in the housing market, with decreasing demand on mortgage loans, is an important explanation to the decrease.

Lending to Swedish non-financial companies increased by 0.2% in December 2023 compared to an increase by 13,5% previous year.

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 Riksbank increased the policy rate to 4% in 2023. In 2024 the Riksbank have started lower the policy rate again. The high interest rates have put pressure on the Swedish economy for both households and companies. Despite challenging times for households and companies, the Swedish banks' non-performing loan ratio is the lowest in Europe and have been so since several years.

The Swedish economy continues to be characterised by weak growth during the first half of 2024 and according to Statistics Sweden's GDP indicator Sweden is still in a recession during the first half year. For the full year 2023, GDP decreased by 0.2 % compared to an increase in GDP by 1.0 % in 2022.

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. This means that the banks are able to continue to issue loans and handle credit losses even if the economy were to worsen.

Contributor: Swedish Bankers' Association - Christian Nilsson
christian.nilsson@swedishbankers.se

Switzerland

The financial sector is one of the cornerstones of the Swiss economy. Its contribution to Swiss GDP amounted to 9.1% in 2023, of which banks contributed 5.4% (CHF 42.6 billion (€45.9 billion)). As consumers of goods and services the Swiss banking sector generated an additional CHF 24.7 billion (€26.6 billion) or 3.2% of Swiss GDP. By catalysing economic development, offering a large number of skilled jobs, paying above-average salaries and taxes banks contribute to Switzerland's international top competitiveness rank.

The sector is very diverse with banks differing in size, business model, ownership structure and regional orientation. As of year-end 2023, there were 236 banks with 2,567 branches and 6,424 ATMs in Switzerland. In addition, banks in Switzerland dispose of 161 branches abroad. It includes four major banks, 24 cantonal banks, 40 stock exchange banks, one Raiffeisen bank and 58 regional and savings banks. The rest is split between private banks, foreign controlled banks and foreign branches in Switzerland. The aggregate balance sheet of all banks in Switzerland amounted to CHF 3,177.0 billion in 2023 (€3,423 billion).

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. Despite these considerable headwinds, the Swiss banking sector is in good shape. Almost half of the CHF 8,392 billion (€9,042 billion) assets currently managed by Swiss banks originated abroad. With CHF 2,205 billion (€2,376 billion) Switzerland remains 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 that employ two third of the Swiss labour force. Swiss SMEs that make use of external capital primarily rely on bank financing. The total outstanding domestic credit volume in 2023 moderately rose to CHF 1,362 billion (€1,468 billion) of which CHF 1,179 billion (€1,270 billion) are attributable to domestic mortgage lending.

In 2023, banks paid CHF 6.9 billion (€7.4 billion) in direct taxes, accounting for 4.5% of all taxes paid in Switzerland. When including companies that work for Swiss banks, this share increases to 5.4% in direct taxes. In addition, the entire financial sector contributed CHF 9.1 billion (€9.8 billion) in indirect taxes. Around 5.8% of all taxes can be attributed to the financial sector.

In 2023, Swiss banks employed 109,593 people (FTE), of which 93,299 were employed in Switzerland. The proportion of women employed at Swiss banks stood at 38.4%.

Clients with banks and securities dealers that are authorized by the Swiss financial market authority FINMA, are covered by a depositor protection scheme. Deposits up to CHF 100,000 per client relation, are secured in case of bankruptcy. This also applies to deposits held at foreign branches.

During today's turbulent times characterized by geopolitical risks, the 'safe haven' function of Switzerland is of particular value. It compensates the negative economic effects these periods usually bring along. The positioning in relation to international sanctions and responding to increasingly stringent economic and trade policy conditions is key to mitigate risks facing Swiss banks and to bolster their client's confidence.

Switzerland offers a highly innovative environment for economic activities, namely of the financial services sector, as evidenced by its number one ranking in the Global Innovation Index. Not surprisingly, the Swiss FinTech landscape has experienced notable growth. There were 483 companies by the end of 2023. This amounts to a 10 % growth yearly over the last decade. Most FinTech firms closely interact with banks. More than a third of these companies are active in the field of Distributed Ledger Technology. FinTechs in Switzerland are also very active in big data analytics and artificial intelligence (AI) as well as in the field of sustainable finance. During last year alone, 44 companies were founded in these three domains.

Contributor: Swiss Bankers Association – Martin Hess martin.hess@sba.ch

The United Kingdom

The UK economy expanded by a modest 0.3% in 2023, but performance was uneven across the year. The early part of the year saw a modest expansion in output as consumer and business confidence recovered after the financial market turbulence seen in the Autumn of the previous year. The significant fiscal loosening announced by the then Chancellor was reversed, restoring market confidence and lowering government borrowing costs.

However, significant cost of living pressures on households from the spike in inflation continued to weigh on demand throughout 2023 and the economy tipped into a short and shallow recession in the second half of the year. Post-pandemic supply chain disruptions and the sharp rise in energy and other commodity prices following the invasion of Ukraine contributed to pushing CPI to over 11% at its peak in late 2022. Inflation averaged 7.3% in 2023, with significant increases in food and energy costs squeezing household budgets and business profit margins.

Despite the contraction in GDP in the third and fourth quarter, this was more modest than many forecasters had expected. Moreover, the labour market proved resilient throughout 2023. The unemployment rate held at around 4% throughout the year. Post pandemic inactivity rates, however, remained elevated with a notable and persistent rise in long term sickness. Tight labour market conditions as well as cost of living pressure contributed to strong growth in earnings across both the public and private sectors, though it was not until late 2023 when wage growth outpaced inflation, leading to a rise in real incomes.

In response to rising inflation and growing evidence that it had become more persistent and broad-based, the Bank of England continued to increase interest rates throughout the year. Bank Rate rose from 3.5% at the start of the year to 5.25% in August (its eventual peak).

The hangover from the spike in gilt yields at the end of 2022 also continued to impact on households and businesses in 2023. The early months of 2023 saw an expected, pronounced, contraction in house purchase lending, as cost-of-living pressures and higher interest rates have further raised the bar for affordability, bearing down significantly on effective demand. In addition, those refinancing their mortgage as fixed-rate deals ended faced a significant payment shock given the higher interest rate environment.

Higher interest rates, as well as increased demand uncertainty also fed into a lower appetite for business borrowing, particularly amongst smaller businesses, which were also continuing to pay down pandemic lending in 2023. Nevertheless, the recovery in business investment continued, at a more modest pace, during the year aided by some businesses bringing forward investment to take advantage of tax incentives.

While 2023 was another challenging year for UK households, data pointed to a relatively modest increase, in aggregate, in repayment difficulties. There were rises in mortgage arrears throughout the year, but levels remained low by all historic comparisons. There was a similar trend in other unsecured consumer credit, though inevitably these trends were asymmetric across the income spectrum. 2023 Q1 saw the first contraction in the aggregate level of deposits as households accessed savings built up through the Covid-19 era of restricted consumption activity to cover higher monthly spend.

Furthermore, to support households mortgage lenders, representing some 90% of the market, signed a 'mortgage charter', which permitted mortgage customers to temporarily switch to interest only payments or extend their mortgage term in addition to business-as-usual forbearance. This was accompanied by a large consumer awareness campaign, coordinated by UK Finance.

Turning to the evolution of payments, even after the covid-related lockdowns were over and economies fully reopened, more long-term changes had been introduced to the way that we live, and this has in turn affected trends in payments. In 2022 the total number of payments in the UK economy rose by 13% as consumers made a larger number of smaller value payments; post-pandemic travel patterns changed and there was further growth in 'buy now pay later' services. There trends persisted in 2023, but with a more modest growth in total payments of 5% in 2023. The total number of payments made in the UK increased to 48.1 billion payments in 2023, 45.7 billion payments in 2022. The number of payments made using both debit cards and credit cards increased in 2023. Further, the share of payments made using cards, which had increased to 59% of all payments during 2022, increased further to 61% of all payments in 2023. Contactless payments continued to be popular, with almost four out of ten (38%) of all payments made in the UK during 2023 being made using contactless cards.

The total number of cash payments made in the UK during 2023 fell to 6.0 billion payments from 6.4 billion payments in 2022. As a result, one in eight payments (12%) made in the UK during 2023 were made using cash, a reduction from 14% in 2022. Cash remained the second most frequently used payment method in the UK in 2023.

There are more than 370 monetary financial institutions (MFIs) in the UK. Just under half the sector balance sheet (48 %) is held in GBP, 17% in € and 35% in other currencies. Total balance sheet assets of €10.7 trillion represented the largest banking sector in Europe

In cross-border services, the UK financial services sector has historically generated a balance of payments trade surplus. In 2023, the surplus was €84.2.2 billion, an increase of 14% compared with 2022 and over two-fifths of the UK's total trade surplus in services.

The UK banking sector contributed an estimated 4.7% of UK tax revenue in FY 2023/4, a greater proportion than its share of UK gross value added. The total tax contribution of the sector was an estimated €51 billion, the highest in the ten years this has been calculated. The estimated tax contribution is split between employment and other taxes collected (26%) and corporation and other taxes borne (74%).

Contributor: UK Finance ukfstatistics@ukfinance.org.uk

EBF Associate Members

Albania

The economic activity, employment and wages increase over 2023. The economy of Albania, which grew by 3.4% at the end of December 2023, was supported by both domestic and foreign demand leading to a higher activity in service and construction industry. The growth in domestic demand came from public consumption, followed by private consumption and investments. Positive contributions from foreign demand have been determined by the good performance of the export of services, reflecting the expansion of tourism activity. Fiscal policy had a counter-cyclical nature over 2023, underpinning the improvement of fiscal positions and the strengthening of macroeconomic stability, through a better coordination with the normalizing monetary policy. As a result, fiscal consolidation was expressed through the reduction by 2.3 percentage points of the budget deficit ratio to GDP, and enabled the drop by 5.3 percentage points of public debt ratio to GDP, which led to a fall to 59.2% by the end of the period. The budget deficit was mainly financed by both foreign and internal borrowing.

Following the latest negative shock, caused by the poly-crisis of Covid-19 Pandemic and Russian aggression in Ukraine, Bank of Albania will continue to be dedicated to respecting its objective of price stability, by starting to normalise the policy rate and maintained an accommodative monetary policy and continued to implement its weekly monetary operations through the repurchase and the reserve repurchase agreement of seven-day maturity, mainly aimed to accomplishing the Bank of Albania's operational objective: keeping the short-term interest rate in the interbank market close to policy rate.

The banking sector's assets expanded by 7% compared with the end of 2022. The share of foreign currency assets and liabilities to total balance is around 50% and has slightly decreased over the year due to a stronger increase in lending and deposits in lek. As at the end of 2023, the structure of the banking and financial system consolidated further to only 11 banks (five of which with Albanian capital and six with foreign capital. Of the latter, five originate from European Union countries. 40 non-bank financial institutions (NBFIs), 645 foreign exchange bureaus, 16 savings and loan associations (SLAs) and one union of SLAs. The share of the banking system in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), remains high. This ratio increased by 2.0 percentage points in the second half of this year, standing at 93.9%, but in annual basis this indicator remains 2.6 percentage points, which is related to the fact that the annual GDP growth rate was higher compared to that of the growth of the banking system's balance sheet.

The most important indicator of supervision, the capital adequacy ratio of the banking sector appears on adequate levels in the year 2023, standing at 19.4%, which is 0.6 percentage point lower than the same period in the previous year. The performance of the indicator during the period was mainly affected by the fall of risk-weighted assets, mostly due to diminishing effect of the lek exchange rare appreciation, and the increase of the value of macro-prudential capital buffer for regulatory capital instruments and eligible liabilities.

The banking sector recorded a positive financial net result of around ALL 32.0 billion. This result was 56% higher compared with the previous year. Activity in lek contributed around 2/3 to the growth of the net financial result. The growth in net interest income and other activities income coupled with the decrease of expenses for loan provisions provided the main contribution to the increase of the banking sector's profit. The increase in the profit of the sector is also reflected in the performance of the average profitability indicators of the banking sector: RoA and RoE climbed to 1.7% and 17.3%, respectively. The liquidity position of the banking sector is assessed to be in good levels, and continues to remain well above the threshold regulatory level.

During 2023, the assets of the banking system grew by 5%, while credit portfolio increased by 3%. The credit portfolio quality improved slightly during the year, as the non-performing loans ratio fell by 0.5 percentage points, reaching at 4.78% at the end of the year.

Deposits held in the banking sector recorded high rates of growth over the period. Customer deposits of individual and business remain the main source of financing for the Albanian banking system, sharing 81% (80.7% in December 2022) of total liabilities. In December 2023, the total value of deposits in the system amounted to ALL 1.600 billion, recording 7% annual growth from the previous year. In annual term, the deposits in domestic currency increase by 7% and those in foreign currency by nearly 5%, while the share of the domestic currency in total deposits slightly increased to 46.6%, from 46.1% in December 2022.

Total assets of NBFIs in December 2023 reached ALL 65 billion, increasing by ALL 7 billion, or 12%. Assets of NBF is accounted for 3.3% of the total banking system assets. Credit portfolio accounts for the main share in the asset structure pf NBFIs, by 73%, with the rest is divided into liquid assets (14%), other receivables (9%) and (4%) are related to other assets (including durable assets).

Contributors: Albanian Association of Banks - Spiro Brumbulli spiro.brumbulli@aab-al.org / Bank of Albania - Altin Tanku atanku@bankofalbania.org

Andorra

The Principality of Andorra is a European micro-State located in the Central Pyrenees between Spain and France with a population of around 85,000 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.

The positive momentum of the Andorran economy, the recovery of interest rates and sound credit approval and monitoring policies have boosted the financial sector's results. Digitalisation and technological advances have also been essential in making this strong performance possible.

Over the course of 2023, banking institutions have maintained their strength in terms of attracting customer funds and growth. Andorra's banking sector closed the 2023 financial year with an aggregate result of €163 million for the three banking entities, thanks in large part to the boost in income generated by the increase in interest rates and by the adaptation of the business to the new environment and the needs of the clients. The banking industry recorded a 44% growth in profits and a 16% rise in the volume of customer funds under management, reaching €74.187 billion. 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 10,38%, in line with the average return of European banks, and up 281 basis points from 7.57% in 2022. The banking sector's return on assets, as measured by ROA, amounted to 0.89%, an improvement compared to 0.66% in 2022 and above the European average. Also, the sector's liquidity and solvency ratios have been higher than the average for European banks. The liquidity coverage ratio (LCR) stands at 228.33%, also higher than the average for European banks. Despite the increase in the Euribor, the NPL ratio continues its downward trend, to a historical low of 2.1% at the end of 2023 (3.3% in 2022, 3.7% in 2021 and 5.32% in 2019). The good dynamics of the Andorran economy, together with the solid credit granting and credit risk monitoring policies of the banking institutions, have resulted in a reduction of the non-performing loans ratio to historic lows. The CET1 (phase-in) solvency ratio was 17% at 31 December 2023.

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 with a local banking model that is closer to its clients. In an environment of high interest rates, the sector has intensified its action to be close to the projects of individuals, companies and institutions. While the total amount of credit investment remained stable at around €5 billion, 664 new mortgages were granted to households for a total amount of €339 million (-14% compared to 2022), which still represents a significant percentage of GDP (10%). New loans to companies and individuals amounted to €707 million, up 5% from 2022, and accounted for 21% of national

GDP. Also, the banking sector drove consumer spending through the various means of payment available, with an 8% increase in the volume of credit and debit transactions at €1,678 million, accounting for 49% of GDP.

The current strength of the Andorran banking system is the result of having overcome many challenges over the years, consistently showing the ability to adapt and find new opportunities. Our capacity to adjust to new financial regulations places us at the same level as other European banks in terms of prudential supervision, regulatory compliance, transparency and cooperation. But it does not end here. Andorra is currently in the final phase of the negotiations for an Association Agreement with the EU that will shape the Andorran economic and social model for the coming decades and will bring about one of the most significant changes the country has seen in years. That it will also bring new opportunities for the banking industry at large.

Contributor: Andorran Banking - Ludmilla Lacueva Canut
andorranbanking@andorranbanking.ad

Armenia

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

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

The banking system is the biggest part of the Armenian financial market. As of 31 December 2023, there are 18 commercial banks operating in the Republic of Armenia. They had 523 branches in Armenia, of which 262 were based in Yerevan. The total number of employees in the Armenian commercial banking sector was about 15,247. 17 banks are listed in the range of the first one thousand large taxpayers' list.

The banking system is privately owned with no government share. Moreover, four of the 18 Armenian banks are open joint stock companies and banks are expected to continue to strive to attract new shareholders.

In seven banks, 100% of the shares belong to non-residents and only in seven banks the shareholdings of non-residents are less than 50%. The shares of international organizations in Armenian banks are also significant. For example, EBRD has 17.71% shares in one bank and ADB has a 13.92% share in one bank.

The return on assets (RoA) was 2.66% and the return on equity (RoE) was 16.6%. In the context of capitalization ratios, the capital adequacy ratio was 27.28% in 2023.

Armenian banks actively participate in the development of each sector of the economy. The transfer volume through the banking system is also impressive. In 2023, transfers to Armenia were $5,696 million, $3,946 million of which came from Russia and $663 million from the USA.

The major part (94.8%) of the total sum of the outstanding loans was provided to the residents of Armenia, 45% of which were companies, 49% to households, and only a small part to non-profit organizations and other financial organizations.

Loans to consumer, industry and the trade sector traditionally amount for the major part of the total loans of the banks: 23.5%, 11% and 12.4%, respectively, in 2023. The biggest growth in lending was in mortgage (compared to 31 December 2023, the volume of loans grew by 42.4%).

As of December 31, 2023, total Loans/GDP is 56.6% and total deposits/GDP make up 100.4%.

Contributor: Union of Banks of Armenia - Nelly Ayvazyan nelly_ayvazyan@uba.am

Bosnia and Herzegovina

Bosnia and Herzegovina is a country in Southeastern Europe, located within the Balkan Peninsula with a population of 3,5 million. The convertible mark (konvertibilna marka – KM-BAM) - the national currency is pegged to the euro through a currency board arrangement within Central bank of BiH, which has maintained confidence in the currency and has facilitated reliable trade links with European partners (1€ = 1,95583 KM)

Bosnia and Herzegovina's Nominal GDP Per Capita is forecasted to be €6,305 in Dec 2023 as reported by International Monetary Fund Report.

BiH financial system is dominated by commercial banks. Currently 21 commercial banks operate on the market and 2 investment banks.

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

In 2023, there are 21 commercial banks operating in Bosnia and Herzegoivna with total of 9,7 thousands employees. (there are also two development banks operating at entities level).

The banking sector recorded a 5.44% growth in assets, reaching €20.3 billion, alongside a 6.6% increase in loans, amounting to €12 billion. Deposits rose by 6.49% to €15.9 billion. Profitability improved significantly, with an increase of 38.5%, reaching €348.2 million. The Tier I ratio was 19.5%. Non-performing loans (NPLs) stood at 4.2%, the lowest level since the global financial crisis, with the retail segment at 3.99%. The total amount of NPLs was approximately €460 million, reflecting an 11.3% decrease compared to the previous year. Profitability indicators showed historically strong results, with ROAA improving to 2.0% from 1.6% in 2022 and ROAE rising to 15.0% from 12.0% in 2022.

Contributor: Banks Association of BiH - Samir Lacevice samir.lacevic@ubbih.ba

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 financial network, comprising twenty-six full-service banks, and sixty seven portfolio or mutual fund management companies. The banking and asset management industry is now one of the strengths of the Principality's economy. As of 2023, financial activities contribute to almost 18% of Monaco's GDP and the total assets growed by 19% over the last 3 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;
- sustainable environment to maximise both business and personal growth;
- a diversified economic base;
- an attractive tax regime.

All of the banks operating in Monaco belong to leading banking groups. Less than 50% 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, European Union and Monaco, Monegasque banks are supervised by the French Prudential Supervisory Authority (Autorité de Contrôle Prudentiel et de Résolution - ACPR) and are therefore subject to the same prudential and regulatory rules as French and European Union 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 supervised by the Monegasque Commission de Contrôle des Activités Financières (CCAF), which is supported at the highest level by the Autorité des Marchés Financiers (AMF), the French market supervisor body.

Both asset management companies and banks are controlled by the Autorité Monégasque de Sécurité Financière for AML/FT-C purposes. They also are supervised by two monegasque authorities for personal data protection and IT security purposes.

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 (see section below on "Confidentiality and the Drive Against Money Laundering").

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

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

Contributor: Monaco Association for Financial Activities – Lisa Chainas amaf@amaf.mc

Montenegro

At the end of 2023, the banking system of Montenegro, as the most significant part of the financial system, is characterized by stability, good capitalization, high liquidity and profitability of operations. During the previous year, the work of banks was characterized by the growth of all significant balance positions. Total capital recorded a growth of 21.4% and deposits by around 10% compared to the comparable period last year. Bank assets increased by 10.4 %, and loans by 11.9 %. Although weakening, the risks of cash (non-purpose) loans to natural persons have not been completely neutralized, so at the end of 2023, the Central bank of Montenegro decided to continue limiting the growth of that segment of loans in 2024 as well.

The average weighted nominal interest rate on total approved loans was 5.92% and the effective 6.47%. where a growth of 0.66 percentage points was achieved, respectively. Inflation in 2023. amounted to 8.6 %, which gives banking indicators a special quality. The situation regarding bad loans improved slightly in 2023, as the share of bad loans fell from 5.7% to 5%. Profit of the banking system at the end of 2023. it was 44% higher than in 2022.

The total liquid assets of banks decreased during 2023 by 19.6%, as well as their participation in relation to assets and deposits, to 23.5% and 32.2% (from 30.7% and 42.9%). Nevertheless, liquid assets are still high, and in the context of structural limitations to the growth of the Montenegrin economy, they are the best safety reserve for banks against the risk of asset quality deterioration and/or deposit outflow. In addition, it should be added that liquid assets also decreased due to banks' investment in securities, but most of the new investments in securities were in government securities of the Eurozone countries, which have the lowest credit risk, which are thus easily marketable.

Analyzing the operations of banks, it can be seen that the largest percentage of total bank assets are held in loans to end clients, but it is interesting that this share has seen a slight decline over the years. Thus, loans made up 61.1 % of total assets in 2020, then 54 % in 2021, and at the end of 2023, that share would be 50.5%.

The gross domestic product of Montenegro in 2023 amounted to €6,964 million, while in 2022 it amounted to €5,924 million, i.e. the result was the third in Europe in terms of GDP growth rate in 2023. Total public debt of Montenegro at the end of 2023 was 60.24 % of gross domestic product (GDP).

Systemic risks at the end of 2023 were moderate and at a slightly lower level than at the end of 2022.

Contributor: Association of Montenegrin Banks – Udruženje Banaka
udruzenjebanaka@t-com.me

Republic of North Macedonia

As of December 31, 2023, same as previous year, the banking system in the Republic of North Macedonia consists of fifteen deposit institutions, thirteen banks and two savings houses. Nine are predominantly foreign owned, five are subsidiaries of foreign banks. Foreign shareholders hold a total of 73.5% of the capital and reserves in the banking system, an increase of 1.1 percentage points from the end of 2022. The highest participation in total capital and reserves comes from shareholders from Greece (22.1%), Turkey (16.5%), Slovenia (12.8%), and Austria (11.3%).

The banking network is spread across almost all cities in the country and consists of 376 business units. The number of employees in the banking system stands at 5907, marking an increase of 77 compared to the previous year.

In 2023, the growth of the banks' balance sheets accelerated, reaching a level of 9.1%. The drivers of the annual growth were higher deposits from non-financial entities, capital and reserves (due to the retention of profits from 2022 and newly issued shares), and profits generated in 2023.

Deposits recorded a strong annual growth, reaching 9.2%, with household deposits contributing slightly more, although deposits from companies also contributed to a significant acceleration in growth. Total deposits represented 77.4% of overall liabilities, while total loans comprised 59.1% of total assets. Household deposits remained the primary source of bank financing, making up 47.4% of the banking system's total liabilities, a slight decrease of 0.6 percentage points from December 31, 2022.

Total loans have an annual increase of 4,3%. In 2023, non-performing loans from non-financial entities increased minimally (0.2%), and their share in total loans continued to decline, reaching a historic low of 2.8% by the end of the year (first achieved in March 2023) thus confirming solid quality of the credit portfolio of the banks. NPL coverage ratio was 70,10 %.

Liquidity indicators improved in 2023. The liquidity coverage ratio of the banking system was 263.5%, which is significantly higher than the regulatory minimum (100%) that confirms the satisfactory level of liquidity available to the Macedonian banking system.

The solvency of the banking system has been also improved. The capital adequacy ratio in 2023 reached the highest level since 2007, and at the end of the year, it stood at 18.1%, which is 0.4 percentage points higher compared to December 31, 2022.

The profitability of the domestic banking system has also improved. In an environment of rising interest rates and interest-bearing assets, the higher profit (47.8% more compared to the previous year) was driven by increased net interest income, with interest income from almost all sectors contributing to this growth. A small contribution to the profit increase also came from higher net fee income. The return rates on average assets and average capital and reserves were 2.0% and 16.1%, respectively, which represents an improvement compared to the previous year (1.5% and 12.2%, respectively).

Digitalization is causing a constant shift in citizens' payment habits, leading them to increasingly use modern payment channels. As shown by the data for 2023 the use of payment cards by citizens for transactions in domestic commerce was growing, evidenced an annual increase in the number and value of payments by 18%.

Following the Central Bank's Guidelines on managing risks related to climate change, banks have increased activities for identification and implementation of appropriate actions to reduce or mitigate its negative impacts. As of December 31, 2023, green loans amount 8,6% of total loans to non-financial companies.

Continuous efforts to improve risk management and embrace technological innovations have significantly supported the sector's resilience.

In 2023, the banking sector in the Republic of North Macedonia stood as a pillar of stability and growth within the economy. With improved capital adequacy, solid liquidity positions, and quality credit portfolios, banks were well-positioned to navigate challenges and contribute to the overall economic development of the country.

Contributor: Macedonian Banking Association – Milena Perchinkova
milena.perchinkova@mba.mk

Serbia

GDP growth rate of 2.5% in 2023, for the second year in a row, has been considered a success and result of coordinated action of monetary and fiscal policies. The economy grew thanks to increased production capacities of export sectors, and measures aimed to make Serbia a desirable investment destination. FDI inflow reached €4.5 billion and was at a record level for the second year in a row (5.7% of GDP).

The country's FX reserves increased by €5.5 billion, to the record level of €24.9 billion at end-2023. Public debt reached 48.4% of GDP at the end of 2023.

The NBS's measures and activities, implemented in cooperation with the government, contributed to preserving Serbia's credit rating at one step away from investment grade in 2023. A positive perception of Serbia as an investment destination is confirmed by the maintenance of Serbia's credit rating, with a stable outlook, by the Standard & Poor's, Fitch and Moody's during the globally challenging 2023, with Standard & Poor's and Fitch assessing our rating at one notch away from investment grade.

At the end of 2023, inflation was halved and measured 7.6% at end-2023 or half the level recorded in 2022.

In 2023, it was maintained the relative stability of the dinar against the euro. The year 2023 became the sixth in a row of past seven years (since 2017) which the National Bank of Serbia ended as the net buyer of foreign currency, in the total amount of €9.1 billion. As 2023 turned out to be yet another year in which foreign capital inflow exceeded the current account deficit, the country's FX reserves increased by €5.5 billion, to the record level of €24.9 billion at end-2023. In 2023, increase of gold in FX reserves continued, to the record level of close to 40 tonnes. Standing at an all-time high of €2.4 billion, gold holdings accounted for around 10% of FX reserves.

Banking sector continued to dominate the Serbian financial system and was the key factor of its stability. It participated with 90.9% in the balance sheet total of the NBS-supervised segments of the financial sector, which was around 80% of GDP in 2023. At the end of 2023, net assets of banking sector were 5,941.240 billion dinars, where loans and receivables accounted for the dominant share.

Among 20 banks operating in Serbia in 2023, 15 banks were in the majority ownership of foreign shareholders, three banks with the majority private domestic capital and two in the majority ownership of the Republic of Serbia. Regarding the ownership structure od banks in the majority ownership of foreign shareholders, structure is the following: those from Italy (26.3%), Austria (19.4%), Hungary (13.9%) and Slovenia (9.9%) held the largest shares in total assets, while banks from other countries accounted for 7.3% of total assets. At the end of the year, the banking sector employed 21,899 persons, 96 fewer than at end-2022.

In December 2023, the average monthly banking sector liquidity ratio was twice higher than the prescribed minimum (1.0) and equalled 2.51. Liquidity Coverage Ratio – LCR has been in use since June 2017 and equals 193.7%, also confirming high banking sector liquidity.

The Serbian banking sector remained adequately capitalised in 2023 as well. Capital adequacy ratio stood at 21.38% at the end of the 2023, significantly above the regulatory minimum (8%). Core capital adequacy ratio stood at 19.67% (the regulatory minimum is 6%), and CET 1 capital adequacy ratio equalled 19.62% (the regulatory minimum is 4.5%). The leverage ratio, i.e. ratio of core capital and total balance sheet and off-balance sheet exposure at end-2023 stood at 10.33%.

Serbian banking sector asset quality was preserved at end of December 2023. The share of NPLs in total loans stood at 3.21%, still very close to the historical minimum (since the adoption of the NPL Resolution Strategy in August 2015, this indicator dropped by as much as 19.0 percentage points). Total gross NPLs equalled RSD 107.3 billion, of that 39.7% were corporate NPLs (with a 2.57% NPL ratio) and 59.5% household NPLs (with a 4.31% NPL ratio).

The year 2023 witnessed further development of the market of payment services that are provided in Serbia by 20 banks and, also, by nine payment institutions and six electronic money institutions.

In 2023, 19 banks operated with profit, while one bank posted a negative pre-tax financial result. In 2023, the Serbian banking sector again recorded a positive pre-tax net financial result (RSD 138.16 billion): RoA increased from 1.9% in 2022 to 2.4% and RoE from 13.8% to 18.0%. Due to the dominant reliance of domestic banks on traditional credit-deposit business models, the greatest generator of the Serbian banking sector net profit in 2023, as in previous years, was net income from fees and interests (RSD 304.9 billion, up by RSD 85.4 billion or 38.9% from the year before). Net income from interest stood at RSD 227.6 billion in 2023, up by RSD 77.7 billion or 51.8%, reflecting the rise in key rates prompted by the NBS and ECB monetary policy tightening.

Contributor: Association of Serbian Banks - Dr Sladjana Sredojević
Sladjana.Sredojevic@ubs-asb.com

Turkey

Growth rate was close to long-term average with 4.5%. Domestic consumption was the most significant contributor to growth. Consumer and producer inflation rates were high, 64.8 and 44.2%, respectively.

In 2023, Türkiye proudly celebrated the 100th Year of the Foundation of the Republic. The earthquake, presidential and congressional elections in Türkiye have been major factors with a significant impact on the economy. The ratio of the budget deficit to GDP ratio increased to 5.2%. The ratio of current deficit to GDP decreased by 0.7 percentage point to 4.7%.

The effort to keep the shareholders' equity strong and a health balance sheet resulted with a well-functioning of the system. The banks worked to effectively manage their balance sheet to function to the best extent possible. High capital adequacy and liquidity ratios created trust for clients and investors.

The number of banks in operation was 63 as of December 2023. 34 of them were deposit banks, and 20 were development and investment banks. There are 3 state owned deposit banks and 9 private deposit banks. There were 9 participation banks in Türkiye.

The number of employees increased by 1% to 209,000 compared to the previous year. 88% of the employed by deposit banks, 3% by development and investment banks and 9 % for participation banks.

The sector share of the first largest five banks in assets was 61 %.

The share of assets of deposit banks was 85 %, while the shares of development and investment banks and participation banks were 6 % and 9 %, respectively. The shares of state-owned deposit banks, private deposit banks and banks owned by non-residents are 37 %, 28 % and 20 %, respectively.

Total assets increased by 64% to TL 23.5 trillion. Total assets increased by 4% to $799 billion. The ratio of total assets to GDP decreased by 6 points to 90%. The share of loans to total assets was 50%.

Loans increased by 44% to TL 11,677 billion ($397 billion). TL loans increased by 54% and FX loans decreased by 2% in $. 46% of total loans were extended to large scale companies and project financing, 27% to SMEs, and 27% to consumers.

Non-performing loans increased by 17% to TL 192 billion. The ratio of non-performing loans (before provisions) to total loans was at 1.6%.

Industries were assisted and financed for their transformation for proper management of climate and environment risks. They worked to boost green and sustainable resources and loans. They supported energy renewal activities.

Total deposits increased by 68% to TL 14,852 billion ($505 billion). 63% of assets were financed by deposits. The ratio of deposits to GDP is 57%.

The share of TL deposits (FX-protected deposits included) in total deposits is 42%, the share of FX deposits (FX-protected deposit included) is 58%. The share of FX-protected deposit in total deposits is 18%.

TL non-deposit funds increased by 21%; TL equivalent of FX non-deposit funds increased by 73% and reached $112 billion. Non-deposit funds accounted for 17% of total assets.

Shareholders' equity increased by 51% to TL 2,122 billion but decreased by 4% to $72 billion in $ terms. Its ratio to GDP is 9%.

Interest income and expenses increased by 87% and 198% respectively while net interest margin decreased by 6% to TL 718 billion. The ratio of the net interest margin to assets decreased to 3.1% from 5.3%.

The net profit after provision for taxes increased by 39% to TL 604 billion. Average return on equity decreased by 680 base points to 34.2%. Average return on asset decreased by 0.5% to 3.2%.

Capital adequacy standard ratio was 18.9%. Core capital ratio stood at 15.1%.

Liquidity ratio increased by 4 points to 160% as of December 2023 as compared to the previous year.

The number of active accounts for digital banking transactions reached 111 million as of December 2023. 96% of the accounts are individual and 4% are commercial.

The online banking transaction volume increased by 77% to TL 30.6 trillion while mobile banking transaction volume increased by 130% to TL 74.2 trillion.

Contributor: Banks Association of Turkey - Güneş Taş Memiş gunes.memis@tbb.org.tr