Q3 2022 overview of the banking sector

Statistics for the banking sector in the third quarter do not yet show any sign of borrowers facing increased difficulties given the changes in the economic environment, which include high inflation and rising interest rates. The outlook for the economy and the indicators for credit quality being currently strong or very strong together suggest that loan quality will probably deteriorate in the near future.

Key indicators	Quarter 2, 2022		Quarter 3, 2022
Yearly growth in the loan stock	12,5%	?	14,7%
Yearly growth in the stock of deposits	9,5%	?	2,6%
Loan-to-deposit ratio	87%	?	91%
Share of long-term overdue loans in the portfolio	0,35%	?	0,25%
Liquidity coverage ratio	162%	?	152%
Core Equity Tier 1 ratio	22,9%	?	21,6%

The growth in lending over the year was 14.7% in the third quarter, having been 9.6% in 2021, and the loan stock of the sector increased to 34.1 billion euros. The corporate loan stock increased particularly, though the volume of loans to households also continued to grow fast. The rate of growth over the year in the loan volume of the small banks reached 32% in the third quarter.

Growth in deposits slowed in the third quarter, as the deposits in the sector were only 2.6% larger in volume at the end of September than they were a year earlier, and they were less than 1% larger than a year before at the end of October. Growth in deposits slowed for all the main client groups. The almost non-existent growth in deposits, and the possible decline in them in the coming quarters, combined with the fast growth in loan volumes to increase liquidity risk. The development trend in the third quarter may however still be considered as towards normalisation, as the loan-to-deposit ratio was down only to 91% at the end of September, having historically generally been above 100%. This shows that the volume of loans in the sector is larger than the volume of deposits. All the banks met the liquidity coverage requirement of 100% with a clear margin at the end of September.

The share of non-performing loans in the sector declined even further from its already low level, dropping to 0.8% by the end of the third quarter from 0.9% in the previous quarter and 1.3% a year earlier. This may be partly because the rapid growth in lending reduces the share of non-performing loans, though also partly because the value of non-performing loans fell in the third quarter. There were 288 million euros of non-performing loans at the end of September, where three months earlier there were 315 million euros. The share of consumer loans that were non-performing increased from

1.4% in the previous quarter to 1.5%. The minimal increase in the share of non-performing loans to non-financial companies in the second quarter was replaced by a fall in the third quarter, as it dropped by 0.2 percentage point to 1.2%. The share of loans overdue by more than 90 days also shrank.

At the end of September, 0.25% of the loan stock was long-term overdue, down from 0.30% a quarter previously.
The banking sector was profitable in the third quarter, and return on equity rose to 10.1% from 8.9% in the same quarter of the previous year, while at small banks it rose to 16.8%.

The rapidly growing loan portfolio continues to have a negative effect on the capital indicators for the sector. This means that risk assets continue to grow more quickly than own funds.

Quarterly reviews of the banking sector

Page last edited on 17/01/2023