European bank operating environment in 2025

Resilient picture for banking operations in Europe despite macro and trade uncertainties

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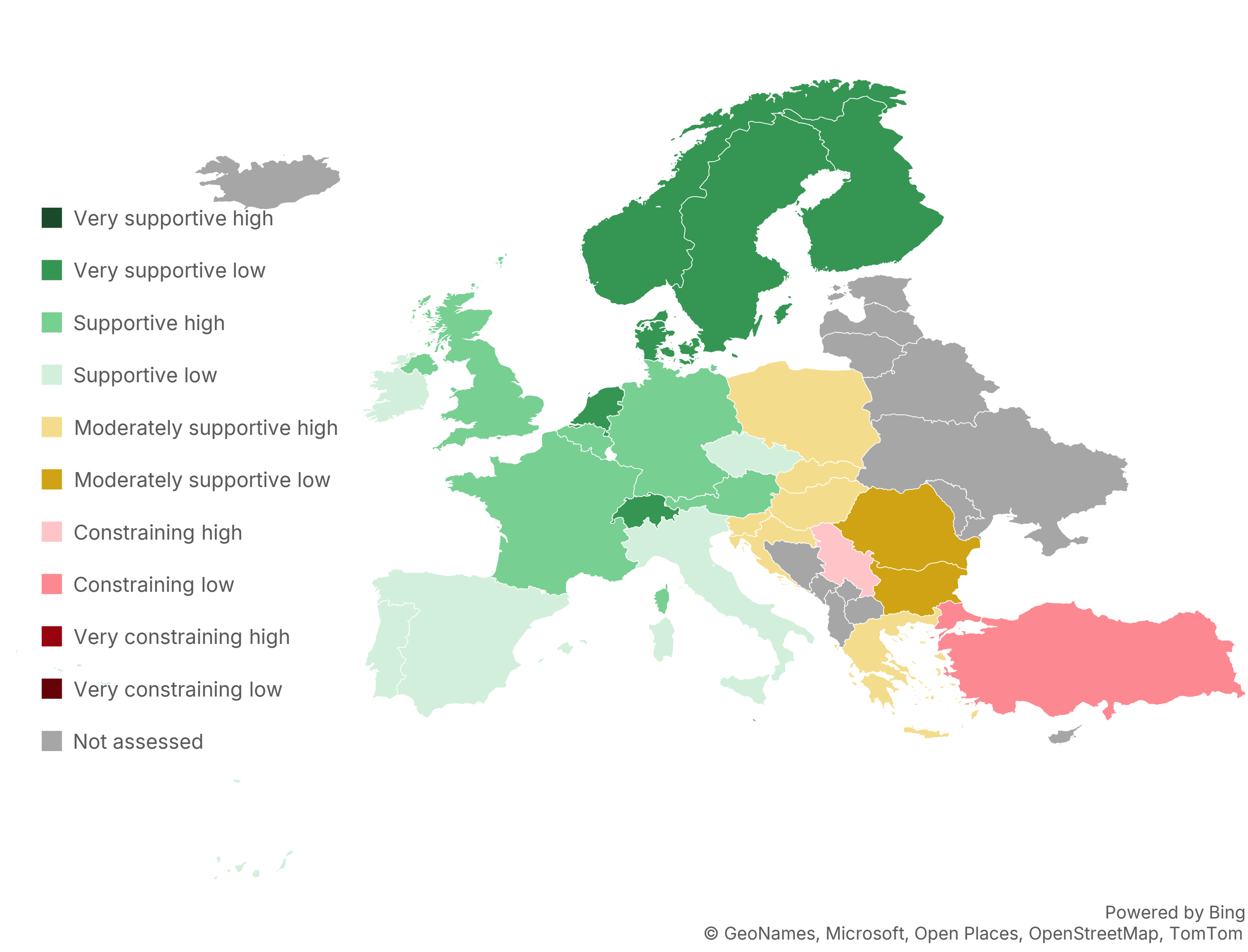
Executive summary

This report provides insights into our operating environment assessments, a key driver of our credit ratings and a building block of our methodology. The report summarises our analytical views on the 17 European countries in which we rate financial institutions. The country assessments are current as of the publication date of this report and result from our credit-rating activity over the past 12 months. The assessments apply to most banks within a country. We might deviate if a financial institution operates within specialised market segments or across borders.

Operating environment assessments, a key component of our ratings. Combined with business-model analysis, our operating environment assessment is the starting point for our analytical rating process. It is initial, notch-specific mapping that positions financial issuers anywhere between the level of 'b-' and 'a' . We categorise the riskiness of an issuer's operating environment by assigning one of five qualifiers, further refined through a high or low modifier to a 10-degree scale ranging from Very Supportive (high) to Very Constraining (low). For European banks, assessments span a relatively narrower scale, with most assessments in the Supportive to Very supportive range, reflecting the significant convergence in several of the factors that drive our assessments.

Figure 1: Operating environment assessments

As of March 2025



Source: Scope Ratings

Note: we have also assessed countries that represent the second, third, or fourth market for some of our rated entities.

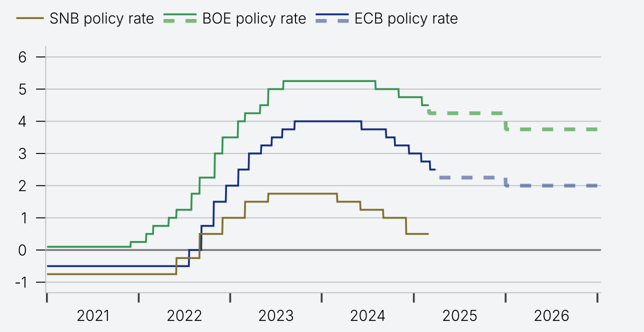
US policy unpredictability adds to uncertainty. The Liberation Day tariff announcements by the Trump administration will likely have direct impacts on Europe's growth and interest-rate outlook and therefore on the performance of European banks. Asset quality is likely to deteriorate, driven first by corporate loans exposed to US trade dynamics and later by second-round effects on households and SME segments.

The tariff announcements have shifted market expectations around inflation and interest rates and broadened the range of possible macroeconomic scenarios. A marked decline in euro interest rates will put downward pressure on banks' margins and profitability, reversing some if not all of the improvements of recent years.

Beyond the immediate impact of the tariff announcements, we continue to monitor the policy shifts of the Trump administration with respect to broader financial policy, including potential changes of bank regulation, interference in monetary policy independence and changes to the framework of international co-operation safeguarding financial stability.

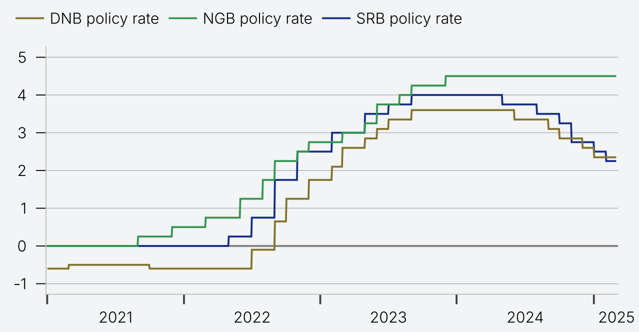
Interest-rate dynamics a key driver for sector performance. After a decade of negative interest-rate policy in Europe, the financial landscape has shifted dramatically. European banks, which once grappled with the challenges of ultra-low and negative interest rates, have been reaping the benefits of higher interest rates and steeper yield curves since 2022. This has been a crucial driver of their performance, influencing profitability and their ability to generate capital organically. Since 2024, however, policy rates have started declining, which will increasingly turn into a headwind for banks' profitability and their ability to generate capital.

Figure 2: Core Europe – Policy rates, historical vs forecasts (%)



Note: Scope does not forecast the SNB's policy rate.
Source: Macrobond, Scope Ratings forecasts

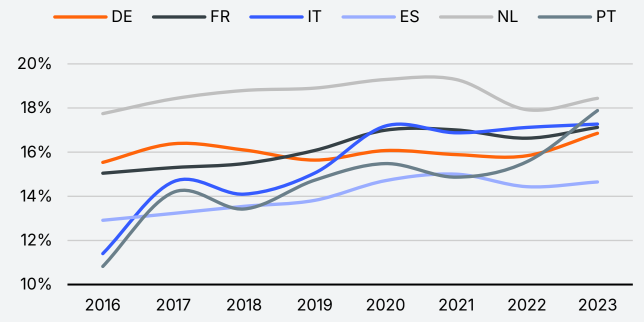
Figure 3: Nordics – Policy rates, historical (%)



Source: Macrobond, Scope Ratings

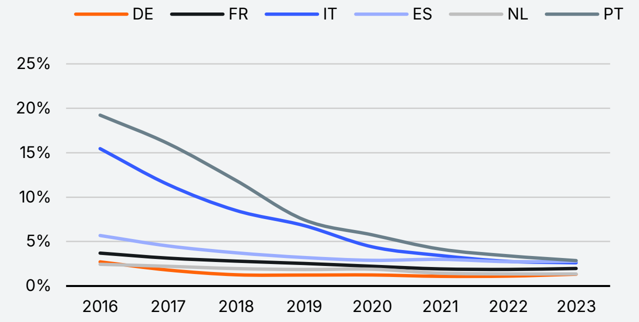
Sector performance increasingly converging. Harmonisation in supervisory practices has produced a significant convergence in bank KPIs at country level. While differences remain at individual bank level, primarily driven by business-model specificities or idiosyncratic factors, country averages for measures of asset quality, solvency, profitability and funding have tended to converge.

Figure 4: Total capital ratio – peer comparison



Note: Source: ECB for the EU
Source: Macrobond, Scope Ratings forecasts

Figure 5: Gross NPL ratio – peer comparison



Note: Source: ECB for the EU
Source: Macrobond, Scope Ratings

Banking Union drives convergence in European assessments. The establishment of the European Banking Union over the past decade has led to a significant convergence in regulatory, supervisory and crisis management frameworks in Europe and specifically in the euro area. This adds to exposure to the same monetary policy, fiscal rules, and lender-of-last-resort facilities. Though incomplete, we look favourably at the European Banking Union set-up as a credit-positive factor in our analysis. Our economic environment assessments for countries in the euro area range from Moderately Supportive to Very supportive. Differentiations are driven primarily by heterogeneous economic parameters and banks' performance.

In assessing the operating environment in the EU, we highlight as a key positive the improvements and harmonisation in banking regulation and supervision brought about by the creation of the European Banking Union in the aftermath of the Global Financial Crisis.

The establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) has harmonised oversight across EU member states, reducing regulatory fragmentation and enhancing the resilience of the banking sector over the long term. Participation in the banking union is automatic for all euro area member states, while other EU members can join through close co-operation with the ECB, as is the case with Bulgaria.

In the euro area, the ECB directly supervises systemically important banks, while national authorities oversee smaller institutions within the Single Supervisory Framework (SSM).

EU banking regulations are aligned with the Basel III standards. Since 1 January 2025, the final Basel III rules have been applied, except for rules relating to market risk, which are currently scheduled to come into force in 2026 (but may be delayed by a year). Basel standards aim to strengthen the resilience and stability of banks by improving the accuracy of risk measurement and management, and by increasing the comparability and transparency of regulatory frameworks across jurisdictions. Although initial implementation started earlier in the EU, full phase-in will take longer than in the US and the UK (end-2032).

The EU has also fully implemented a bank resolution regime under the Bank Recovery and Resolution Directive (BRRD). Member states have transposed the BRRD into national law and implemented it since 2015. National resolution authorities are responsible for crisis management for banks and non-bank intermediaries. For significant banks, national resolution authorities co-operate with the Single Resolution Board (SRB). The SRB also holds decision-making authority over resolvability assessments and may require changes in funding arrangements and/or corporate structures. Given the implementation of the resolution regime, we do not anticipate state-funded bailouts of banks within the Banking Union.

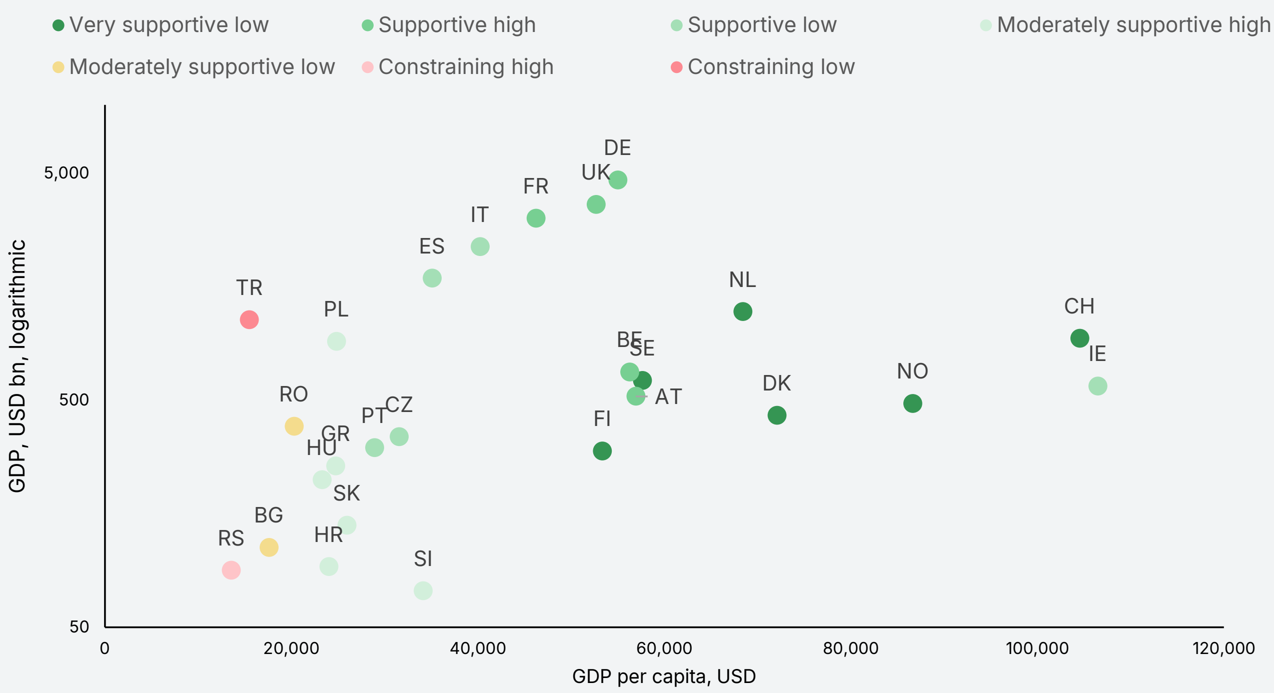
Another important support element for our operating environment assessments is the role of the ECB as the lender of last resort in the euro area. The ECB is a highly credible central bank with a proven ability and willingness to support banks and governments. The central bank operates two standing facilities, one for loans (the Marginal Lending Facility) and one for deposits (the Deposit Facility). In addition, it has several open-market operations to manage interest rates and liquidity, including Main Refinancing Operations (MROs); Longer-Term Refinancing Operations (LTROs); and fine-tuning operations.

The ECB also plays a critical role in the euro government bond market through its various asset purchase programmes. In July 2022, the ECB introduced the Transmission Protection Instrument (TPI) which permits targeted purchases of government bonds in countries facing unwarranted and disorderly market dynamics that could impair the smooth transmission of monetary policy. The TPI is deployed when deteriorating financing conditions are not justified by their underlying economic fundamentals.

Differentiation driven by economic analysis. Economic performance across Europe remains heterogenous. Country-specific factors and policies play a big role as drivers of economic KPIs, and there are significant gaps in wealth levels, fiscal KPIs (including sovereign ratings), and unemployment levels, among other factors. In assessing economic strength, we primarily base our analysis on GDP per capita and nominal GDP as measures of the wealth and size of domestic economies. These indicators tend to be stable over the cycle and are highly correlated with broader macroeconomic and financial market development factors, such as unemployment, inflation, depth of financial intermediation, private-sector credit penetration and capital market maturity.

Figure 6: Nominal GDP and GDP per capita (2024) – peer comparison

As of March 2025



Source: Scope Ratings
Note: only the sampled operating environments are considered here

Loose correlation with sovereign ratings. There is a degree of overlap between our sovereign ratings analysis and our assessments of bank operating environments. The wealth and size of domestic economies represent a material common factor. This produces a positive correlation (Figure 2) between operating environment assessments and sovereign ratings, but this relationship is not mechanistic. Sovereign ratings are taken into consideration, as they inform us about the ability of fiscal authorities to support economies against potential shocks. But this is just one of many factors at play in our assessments.

Figure 7: Correlation between the operating environment assessments and Scope's sovereign ratings

As of March 2025

Source: Scope Ratings

Note: only the sampled operating environments are considered here

Portugal: steady improvement in economic and banking performance drives improved assessment

Our decision to upgrade the operating environment assessment for Portuguese banks earlier in 2025[1] reflects key structural improvements, which we believe are material for the credit risk of banks operating in the country. They include:

- **Higher wealth:** While still below the EU average, Portugal's GDP per capita has improved markedly since 2015, with steady growth prospects as the economy continues to perform well. The positive economic performance is largely driven by private consumption boosted by excess savings accumulated during the pandemic, a resilient labour market, and strong net exports of services, including tourism and investment.

- **Progress in fiscal consolidation and debt reduction**: Portugal has emerged as one of the most fiscally disciplined countries in the euro area. Following the implementation of the financial assistance programme in 2011, the country set about reducing its fiscal deficit and implementing structural reforms. Between 2016 and 2019, the country maintained average primary surpluses of 2.2% of GDP. During the pandemic, it kept budget deficits under control, with a quick rebound from -5.8% in 2020 to -0.3% in 2022. Scope forecasts continued budget surpluses, supported by declining financing costs, debt reduction, robust growth in tax revenues, and continued fiscal discipline. These factors will support a further reduction in Portugal's debt. We project the debt-to-GDP ratio will decline to 85% by 2026.

- **Banking sector de-risking and restructuring**: The banking sector has downsized following the significant deleveraging of Portuguese households and businesses since 2008, with private-sector debt to GDP decreasing to 120% (estimated) in 2024 from a peak of 204% in 2009. Most legacy non-performing exposures have been sold or written down and the positive economic backdrop has supported a decline in NPLs to historically low levels of NPLs, 2.4% of total loans in YE24, far from the peak of 17% in 2015. The profitability of the sector improved consistently in 2023 and 2024. The rapid pass-through of policy to lending interest rates and the slower repricing of deposits led to surging profits and higher capital ratios. Exposure to sovereign risk significantly declined thanks to capital accumulation and diversification of debt portfolios. Sovereign risk itself also declined: Scope currently rates Portugal at A/Stable.

Netherlands: strong fundamentals drive the improved assessment of the operating environment.

In 2025, we also improved our assessment of the operating environment for banks in the Netherlands[2]. The upgrade was driven by the following considerations:

- **Strong economic track record**: the Dutch economy has shown resilient performance in recent years despite significant shocks such as the Covid-19 pandemic, the energy crisis, and tightening monetary policy. The positive view is supported by lower inflation, stronger private demand, and the recovery of global trade. However, higher US import tariffs could impact exports. The Netherlands benefits from a strong external position and a prudent fiscal policy. Private-sector debt was high at 198.7% of GDP as of end-2024, albeit a decrease from the 273.8% peak in 2014. Household debt is predominantly made up of long-term, fixed-rate mortgages, which largely mitigate risks of rate vulnerability. The property market is poised for growth in 2025, driven by rising wages and lower interest rates, despite limited housing supply.
- **Low public debt**: General government debt declined steadily from 53.3% of GDP in 2020 to 44.8% in 2024, due to low budget deficits and the strong inflation effect on nominal GDP. Scope expects the debt-to-GDP ratio to increase slightly over the next five years, reaching 51.4% in 2029, due to rising public-expenditure pressures. These will remain moderate compared to euro-area peers and provide the Dutch authorities with considerable fiscal flexibility. Scope rates Netherlands at AAA/Stable.
- **Strong wealth indicators vis a vis peers**: The Dutch economy is wealthy, highly diversified, and competitive, with GDP per capita of USD 68k as of end-2024, well above the average for countries rated Supportive High.
- **Banking sector resilient to adverse scenarios**: The Dutch banking sector is well-positioned, with a solid capital base, strong asset quality and comfortable liquidity. Financial performance improved in 2023 and 2024, driven by higher interest rates, growth in fee income, and increased business volumes. While profitability is expected to normalise, it remains a credit strength. Sound regulation, the unique features of the Dutch banking landscape, and well-developed capital markets further help banks navigate economic challenges.

[1] Scope rates Caixa Geral de Depósitos and Millennium BCP on a subscription basis. Ratings are available to ScopeOne subscribers here. The improved assessment of the operating environment has already been incorporated in the ratings.
[2] Scope rates ING, Rabobank, ABN AMRO and DVB on a subscription basis. Ratings are available to ScopeOne subscribers here. The improved assessment of the operating environment has already been incorporated in the ratings.

Contents

Austria – Supportive High

Relatively large economy with high wealth levels

Austria is the EU's 10th largest economy, with GDP of USD 500bn in 2024. The economy's sizeable industrial base is heavily integrated into supply chains in Germany and Central and Eastern Europe. Tourism plays a larger role than in most Central European countries. Wealth levels are very high, with real GDP per capita at 126% of the EU average in 2024.

Weak economic performance in recent years

Austria's economy contracted in the last two years by an average of 1.1%, after a quick rebound from Covid-19 in 2021/22. Due to Austria's exposure to global and EU growth dynamics via its large export share and integration with trading partners (in particular Germany), the Austrian industrial sector has performed relatively poorly. In addition, the construction sector has been in a protracted recession due to high borrowing and construction costs, weighing on economic performance. High inflation and wage indexation have led to some losses of competitiveness internationally.

This weak aggregate economic performance is also increasingly feeding into the Austrian labour market, with unemployment rising to 5.4% in April 2025, from 5.0% one year earlier. Further, corporate insolvencies have been rising in recent quarters, increasing by 20% YoY in Q4 2024. Over the near term, potential US tariffs could weigh on exports, in particular in the automotive and machinery segments. As a positive, Austria no longer relies on gas imports from Russia and has a sufficient number of alternative suppliers to secure the country's energy mix.

Fiscal consolidation will not provide much growth impulse

Austria's fiscal space is relatively constrained, with the fiscal policy of the newly formed coalition government aimed at reducing deficits in coming years. While the proposed measures appear to be broadly neutral on growth, there will not by the same token be any meaningful growth impulses from fiscal policy in the near term. The Austrian economy might benefit significantly if German growth picks up more significantly due to large fiscal stimulus with the debt brake reform implemented in March 2025. Austria's fiscal deficit was 4.7% of GDP in 2024 and its debt-to-GDP ratio was 81.8%. Scope rates Austria AA+/Stable.

Strong regulatory and supervisory framework

Austria is part of the European Banking Union. The Financial Market Authority (Finanzmarktaufsicht, FMA) is the National Competent Authority (NCA) for less significant institutions (LSIs). The FMA is also the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, FMA co-operates with the Single Resolution Board (SRB) to prepare resolution plans.

While Austria has not yet implemented general depositor preference, depositors are protected via statutory guarantee schemes up to EUR 100,000, with the amount increasing to up to EUR 500,000 if these deposits fall under the definition of temporarily high balances. Statutory protection schemes are the Einlagensicherung AUSTRIA (ESA), and the protection schemes of savings and co-operative banks.

Austria is a member of the single currency union. As a broadly held[3] and recognised currency, the euro enhances the ECB's ability to support the economy and its financial system in times of stress.

Large co-operative and savings bank sectors

The Austrian banking sector comprises joint stock banks and private banks, savings bank, , Raiffeisen credit co-operatives, Volksbank credit co-operatives, state-owned mortgage banks, building savings societies and special-purpose banks. As of YE 2023, the share of the five largest credit institutions in the sector total assets was 38%.

The Austrian market is characterised by tight profit margins due to elevated competition and relatively high costs, but subsidiaries in Central, Eastern and Southeastern Europe (CESEE) play an important role in boosting aggregate profitability. Subsidiaries operating in 15 CESEE

[3] The Euro had a weight of 29.3% in the Special Drawing Rights basket at the end of 2022 (IMF).

countries had total assets of over EUR 300bn at H1 2024, around 25% of the sector total. In line with other EU banking systems, higher interest rates have supported higher profitability in recent years. With mostly retail-focused business models, banks are largely deposit funded, with a loan-to-deposit ratio of around 97% at H1 2024.

Asset quality, while robust overall, has experienced some worsening in recent quarters, with the NPL ratio increasing by 45bp year-on-year to 2.3% as of Q3 2024, due to increases in the corporate and SME segments in Austria.

For 2025, we expect a moderate uptick in the NPL ratio and cost of risk, with risk drivers in the corporate segment. Household NPL ratios are expected to remain low, although some deterioration might stem from the country's weakening labour market, due to continued economic weakness domestically. Real GDP growth is potentially facing a third year of recession.

Belgium – Supportive High

Wealthy and diversified open economy

The Belgian economy benefits from high wealth levels and a diversified structure, supported by high value-added services, with strong market access and a sound external position. The diversification of export industries (minerals, pharmaceuticals, chemicals, automotive) across cyclical and non-cyclical sectors supports the resilience of the country's external accounts.

Belgium has a nominal GDP and GDP per capita of approximately USD 665bn and USD 56k, respectively, as of end-2024. The country's real GDP per capita is in line with the EU average. The growth outlook is positive, and we expect real GDP to increase by 1.2% in 2025.

High household net wealth, combined with the automatic indexation of wages to inflation, disinflationary trends and a strong labour market, provide significant support to household demand. The unemployment rate remained below 6% in 2024, while the withdrawal of energy support measures contributed to inflation rising to 4.3%.

Belgium maintains a large net international creditor position (63% of GDP as of end-June 2024), moderate current account deficits, and a favourable debt composition, with approximately two-thirds of external liabilities being long-term. These factors mitigate risks associated with the country's high gross external debt stock and weakening competitiveness, driven by slowing productivity growth and rising labour costs.

Weak fiscal outlook with expected large budget deficits poses challenges

Scope rates Belgium AA-/Negative, citing a weak fiscal outlook and a rising public debt ratio (104.7% of GDP in 2024) posing a significant challenge. Budgetary consolidation was delayed by ongoing political negotiations to form a federal government. A fragmented political landscape and high political uncertainty make it difficult to implement effective economic and budgetary reforms.

Belgium's open economy is highly dependent on trade, particularly within the EU and with neighbouring countries. Global economic disruptions, geopolitical tensions, and changes in US trade policies could all impact its economic stability. The US is Belgium's fourth-largest export market, accounting for 7.6% of total exports, primarily in pharmaceuticals and chemicals. Belgium's low direct exposure to the US, coupled with the exemption of pharmaceuticals from new tariffs, partly mitigate pressure on economic growth. Economic indicators remain stable, and the macroeconomic environment continues to support the banking sector.

Strong regulatory and supervisory framework

Belgium is part of the European Banking Union. The central bank, the National Bank of Belgium (Nationale Bank van België/Banque Nationale de Belgique), is the National Competent Authority (NCA) for less significant institutions (LSIs). The central bank is also the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, the central bank co-operates with the Single Resolution Board (SRB) to prepare resolution plans.

Belgium's deposit protection is structured around two key institutions: the Guarantee Fund, and the Protection Fund for Deposits and Financial Instruments. The Guarantee Fund reimburses deposits up to EUR 100,000 per person, per financial institution. Additional protection up to EUR 500,000 applies to a temporary deposit held for certain situations. Any financial instrument held with a credit institution or investment firm from the euro area is protected in case of failure up to EUR 20,000 per person and per institution. Non-covered deposits rank pari passu with senior preferred debt, as Belgium has not implemented full depositor preference.

Consolidated and concentrated domestic banking sector

The banking sector is consolidated and has solid fundamentals, with meaningful transformation and de-risking efforts since the global financial crisis. Belgium is dominated by four banks, two of which are part of large foreign banking groups ING and BNP Paribas (Fortis). KBC operates an established bancassurance model in Belgium and selected CEE countries. Belfius has been fully owned by the Belgian state since its nationalisation in 2011. We believe the Belgian authorities intend to privatise Belfius, although a timeline has yet to be indicated.

Belgian banks' sound solvency positions are underpinned by high levels of profitability. Solid performances in 2023 and 2024 were supported in particular by higher interest income and low provisions for credit losses.

Asset quality has improved significantly in recent years

Asset quality is generally in line with European averages, reflecting a steady improvement over the years that is now likely to bottom out. Banks are seeing non-performing assets remain broadly stable thanks to the overall sound real estate market.

The central bank introduced macroprudential mortgage measures in 2020, including loan-to-value limits and a sectoral systemic risk buffer, which led to tighter lending standards and an improvement in the credit risk of new loans. A high share of fixed-rate mortgages limits the immediate impact of rising interest rates on households. Mortgage defaults remain at a historically low level as borrowers benefit from predominantly fixed-rate mortgages and automatic wage indexation.

Commercial real estate exposures are significant, representing one-third of total loans to non-financial institutions. Approximately one-fifth of the CRE exposure relates to loans to foreign companies. Asset quality in this segment remains benign.

Strong liquidity buffers and improved funding profiles

Belgian banks have strong liquidity buffers and improved funding profiles. However, given the high level of government debt, banks compete with public bond placements for household savings. Despite some deposit outflows and repayments of ECB liquidity, banks' liquidity buffers remain well above regulatory thresholds.

We anticipate Belgian banks will maintain strong performance in 2025, bolstered by increased credit growth resulting from lower interest rates and declining inflation. This expectation is further supported by banks' healthy capital positions and their digitally advanced business models.

Denmark – Very Supportive Low

Wealthy, open and competitive economy

The Danish economy is relatively small but well-integrated and competitive. With one of the world's highest GDP per capita (USD 71,970 as of April 2024), the country benefits from a solid external position with current-account surpluses driven by a large financial sector, a very high rate of domestic savings and strong exports of high-value goods.

The economy recovered rapidly after the Covid pandemic, growing by 7.4% in 2021 and 1.5% in 2022. Economic activity also proved to be resilient in 2024 with a real GDP growth (estimated)of 3.7% despite inflationary pressures and the high-interest rate environment. Economic growth was mostly driven by an outstanding performance by the pharmaceutical sector, which has been a key competitive strength of the economy for the past 10 years.

The pharmaceutical sector contributed around 10% of real GDP growth for 2020–2021 and surged to 90% and 50% in 2023 and 2024. This surge reflects the higher export demand for new products developed by Novo Nordisk, Denmark's leading pharmaceutical company. Outside the pharmaceutical sector, GDP growth remained subdued in 2023. Scope expects real GDP growth converging towards the potential run rate of 1.5% by 2027.

Scope rates Denmark at AAA/Stable. Denmark's economic resilience is supported by a highly competitive and flexible labour market. Scope expects the unemployment rate to remain low but rise modestly from 5.1% in 2023 to 5.4% in 2024 and 5.2% in 2025 as the gradual normalisation of economic growth eases capacity pressures and labour markets.

General government finances have been in surplus for the past seven years, with an average headline fiscal balance at 2.5% of GDP. Scope expects the fiscal balance to remain in surplus range between 0.5% - 1.5% in 2024 and 2025, turning to a small fiscal deficit by 2029 as the government targets a structural deficit of 0.5% GDP in the medium term.

Macroeconomic policies are implemented by the central bank (Danmarks Nationalbank), which ensures the robustness of Denmark's economy via three main objectives: stability of prices through a fixed exchange policy, ensuring that payments can be completed in a secure and efficient manner, and a commitment to ensure financial sector stability.

Strong regulatory and supervisory framework

Danmarks Nationalbank is also responsible for ensuring the stability of the financial sector. It oversees the financial system as a whole. The Danish Financial Supervisory Authority (Finanstilsynet) ensures that individual banks meet regulatory requirements, as this is not a task of the central bank.

Danish banks operate in a highly regulated environment. Supervised by the FSA and the central bank, banks are subject to relevant EU regulations and directives.

The regulatory framework applicable to the banking sector is the Danish Financial Business Act, which is closely aligned to EU legislation and includes all details related to all regulations for financial institutions (banks, mortgage credit institutions, insurance companies and investment firms). The Act regulates the activities, licensing requirements, duties and responsibilities of financial institutions and their management and contains provisions relating to the supervision and supervisory powers of the FSA.

A particularity of supervision structure of the FSA is the Supervisory Diamond for banks. The diamond is structured to target a number of benchmarks to indicate banking activities that should initially be regarded as having a higher risk profile.

In Denmark, deposit guarantees are aligned with EU standards. Deposits of individuals and small businesses are protected by guarantee schemes up to EUR 100,000 (or its equivalent in domestic currency) under the Danish Guarantee Fund, which protects eligible depositors against losses in the event of a bank suspending payments or if it becomes subject to compulsory winding up.

The Danish banking sector is solid and has proven to be resilient to shocks. The sector is highly consolidated, with a few large commercial banks controlling most of the market, and smaller regional savings banks and specialised mortgage entities. Danske Bank, Nykredit, Jyske Bank, Nordea and DLR together account for around 66% of the sector's assets. The sector is highly interconnected with other European countries, in particular within the Nordic region.

Commercial and household mortgages constitute almost 70% of total lending in the country. Danish households are among the most indebted relative to their disposable incomes, with a ratio of lending as share of disposable income at around 200% as of YE 2023.

However, following the increase in interest rates, mortgage refinancing increased significantly, leading Denmark’s household debt to fall. The household debt-to-disposable-income ratio is now below the levels of Norway and the Netherlands. Mortgage refinancing is a peculiar feature of Danish mortgages that allows borrowers to reduce debt balances when interest rates increase by refinancing old mortgages into new ones with higher interest.

Danish banks are well capitalised, with an aggregate CET 1 ratio of 19% as of Q3 2024, above the 16% average for EU banks under EBA supervision. After a decade of challenged profitability due to the low interest-rate environment, Danish banks achieved a record return on equity of 12% in 2023, compared to 7.3% on average for 2013-2021.

Finland – Very Supportive Low

Wealthy, open and modern economy

Finland is wealthy, open and modern economy. Between 2014 and 2024, Finland's real GDP grew by 0.8%, the lowest in the Nordic region[4]. As of 2024, Finland nominal GDP and GDP per capita amounted to approximately USD 306bn and USD 55k, respectively, which is among the highest in the EU and above the OECD average.

The country experienced a recession in 2023 and a mild contraction in 2024. The weak performance seen in the last two years reflected the slow growth in Finland's largest trading partners and the impact of higher interest rates on households and businesses, particularly in the construction sector. Another important factor was the war in Ukraine, which had a greater impact on Finland's exports than the other Nordic countries, because Russia has historically been an important trading partner.

However, due to the material decline in inflation seen in 2024 and recent interest rate cuts, Scope expects the Finnish economy to bounce back in the short-term, growing by 1.6% and 1.5% in 2025 and 2026, respectively.

The high level of structural unemployment continues to be a hurdle for the economy

Finland has exhibited a structurally higher unemployment rate (around 6%-8% in the last five years) than its peers. It amounted to 8.4% in December 2024. High unemployment is not just the consequence of the current economic recession but also the result of generous working-age benefits, a relatively high level of unemployment benefit compared to EU countries and high-income taxes that reduce incentives to work.

Scope rates the Republic of Finland at AA+ with a Stable Outlook. The rating is supported by:

- High government debt affordability, excellent market access and the government's ample net financial asset position;
- High institutional quality, ranking among the best countries globally in terms of respect for the rule of law, accompanied by a good record of proactively implementing reforms;
- A highly educated workforce and strong infrastructure in the future economic areas of digitalisation and the green transition.

The country's credit weaknesses stem from increasing geopolitical risks after Russia's full-scale war on Ukraine; relatively high structural unemployment levels due to labour-market inflexibility; modest productivity levels; and an ageing population.

Strong regulatory and supervisory framework

Finland is part of the European Banking Union. Finanssivalvonta (the Finnish Financial Supervisory Authority, Fin-FSA) is the National Competent Authority (NCA) for less significant institutions (LSIs). The Rahoitusvakausvirasto (Finnish Financial Stability Authority, FFSA) is the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, FFSA cooperates with the Single Resolution Board (SRB) to prepare resolution plans.

High concentrated banking sector and one of the largest in size versus the domestic GDP.

The top five banks accounted for 80% of the sector's domestic assets as of YE 2023, indicating high banking concentration. The banking sector is highly interconnected with its Nordic neighbours through ownership and investment, and the largest Nordic banks are common competitors. The Finnish banking sector is also one of the largest in terms of share of the country nominal GDP in the EU, surpassed only by France, with a three-year average of over 300% during the period 2021-2023.

The domestic banking sector has displayed high profitability in the recent past due to higher-for-longer interest rates and its significant share of variable-rate lending. Even though net

[4] Norway, Sweden, Finland, Denmark and Iceland

interest income has started to decline from recent highs, we expect banking sector profitability to remain elevated in 2025.

Asset quality has remained sound and mostly stable, with non-performing loans (NPLs) remaining at approximately 2% as of December 2024. However, the credit quality of domestic portfolios has deteriorated slightly due to weaker growth and higher debt-servicing costs, which led to a rise in bankruptcies in 2023 and 2024. We expect asset quality metrics to deteriorate in the near future due to the overall increase in non-performing corporate loans in the construction sector since the second half of 2023 which continued in 2024.

Despite the recent weakening of the commercial real estate (CRE) market, it remained resilient in 2024, with bank's credit losses remaining low given the limited share in the total loan portfolio.

Finnish banks are on average well capitalised, with banking sector Tier 1 capital ratio surpassing 19% and the leverage ratio above 6% in Q2 2024, maintaining satisfactory capital buffers above minimum requirements and both above EU averages. The average Liquidity Coverage Ratio (LCR) stood at around 170% as of Q2 2024, also exceeding regulatory requirements.

The recent stress test conducted by the ECB showed that Finnish banks were sufficiently prepared to manage a severe recession, but the IMF's Financial Sector Assessment Program (FSAP) indicated a heavy reliance on short-term wholesale funding, which could lead to risks to financial stability and liquidity shortfalls and a procyclical contraction in credit.

Finnish banks benefit from a stable and well-diversified funding structure, with a large share of funding coming from household and corporate deposits (around 50% of total funding) and international capital markets (15% of funding), mostly covered bonds. The latter are a well-established source of funding, attracting mainly institutional investors.

A key challenge for the banking industry stems from the high exposure to the housing market, with associated high levels of household indebtedness and high house prices.

Customer deposits held in authorised banks are protected by the domestic Deposit Guarantee Fund (Talletussuojarahasto) up to EUR 100,000. The deposit protection limit applies to total eligible deposits per holder and per financial institution. The Fund's target level is equivalent to 0.8% of the total amount of covered deposits, with its statutory target level reached by July 2024. Non-preferred deposits (not guaranteed, not retail and SME) rank on a par with other senior unsecured creditors.

France – Supportive High

Large and diversified economy, EU founding member

France has a well-diversified and service-oriented economy that ranks as the 7th largest in the world and the 2nd in the EU after Germany. The country benefits from a large base of agricultural resources, a dynamic manufacturing industry and a very competitive services sector. Key industries such as air and space technology, energy, biopharmaceuticals, luxury goods and food processing are well recognised for their global competitiveness. Even though France depends on European trade and highly integrated regional value chains, the size and diversification of the economy is a key strength that supports the country's resilience to external shocks.

The economy is driven by high value-added activities with a sizeable and resilient banking sector. Scope projects real GDP growth at 1.1% in 2025 (the same as 2024), and that growth will reach a 1.2% on average between 2026 and 2029. We expect lower inflation and interest rates to support private demand, although a more restrictive fiscal stance and heightened geopolitical tensions could weigh on growth prospects.

This trajectory takes into account uncertainty surrounding the execution of the government's fiscal strategy over the 2026-29 period as well as the moderate growth and inflation outlook. France continues to face a sustained deterioration in public finances, driven by higher-than-expected budget deficits and a steady rise in general government debt, which has put pressure on the multi-year budget and reform agenda.

Constant reduction in unemployment

Unemployment moves within a range between 7.2%-7.8%. After peaking at levels above 10% between 2012 and 2016, the unemployment rate has been falling almost continuously since 2016, reaching a low of 7.1% at YE 2022, only moderately increasing to 7.4% at YE 2024.

Scope rates France AA-/Stable. The country's key role as euro area founding member, leading guarantor of the European institutional framework and driver of European integration are key factors supporting the rating. In addition, its international role, military capacity and large nuclear industry further bolster its creditworthiness in the current geopolitical environment.

France is part of the European Banking Union. Large French groups fall under the supervision of the ECB. The national authority in charge for supervision and resolution is the Autorité de Contrôle Prudentiel et de Résolution (ACPR).

Deposits up to EUR 100,000 are protected by the deposit guarantee scheme. The Fonds de Garantie des Dépôts et de Résolution (FGDR) covers savings and other accounts up to a total of EUR 100,000 per customer per institution. Regulated savings such as the *Livret* "A", "LDDS" and "LEP" are covered by a government guarantee with similar conditions. In both cases, compensation is handled by the FGDR. Some legal entities and private individuals are excluded from the deposit guarantee scheme: central governments and administrations, local authorities and supranational institutions, all companies and organisations in the financial sector, and insurance companies.

Large banking sector, with four G-SIB entities.

The French banking sector is a significant contributor to the economy. France had four banks designated as Global Systemically Important Banks (G-SIBs) in the 2024 list: BNP Paribas, Crédit Agricole, BPCE and Société Générale. The importance of the banking sector is also evidenced by the number of bank employees: roughly 355,000 people as of YE 2023. The size of branch networks is a key characteristic: the French banking sector has the highest domestic branch density in the EU, with one branch for every 2,000 inhabitants (followed by Spain, Austria and Italy).

The banking sector is highly concentrated. The five largest banking groups – the four G-SIBs plus Crédit Mutuel – account for 80% of domestic assets, and all combine banking and insurance activities. While co-operative banking groups account for the bulk of domestic retail operations, the largest banking groups maintain well diversified business models with significant revenues from non-retail banking activities (specialised lending, Insurance and asset management).

Profitability has improved, although the benefits of higher interest rates in France lagged other EU countries due to structural features related to legal caps (usury rates). Liabilities repriced more quickly, including those for regulated savings (Livret A), which reduced the speed of the positive impact of higher interest rates on net interest margins.

French banks have maintained with adequate capitalisation levels, limited on the one hand by low profitability and lower organic capital generation compared to EU peers, but supported on the other hand by relatively lower shareholder remuneration, with payouts and share buybacks in the lower range compared to EU peers.

Germany – Supportive High

Germany is the EU's largest economy with GDP of EUR 4.3trn in 2024. The economy is heavily skewed towards industry and a large number of SMEs active in export markets.

Largest economy in the EU with high wealth levels

Wealth levels are high with real GDP per capita exceeding the EU average by 22.4% in 2024. While there are discrepancies in wealth levels between Western and Eastern states, there has been significant convergence since reunification.

Stagnant economic performance since 2020

Germany's economic performance has lagged EU peers since the Covid-19 crisis owing to a multitude of challenging factors, including the energy shock triggered by Russia's full-scale invasion of Ukraine and growing competition in global markets from China. As a result, German real GDP has remained roughly at its 2019 level, while the EU's aggregate real GDP grew by 6% over the same period. In the near term, US tariffs could weigh on German exports, particularly in the automotive and machinery segments. Structural factors also weigh on German growth potential in the medium-term, most prominently adverse demographics but also a high regulatory burden on companies and a significant investment gap.

Potential fiscal impulse could support growth outlook

The coalition government formed after federal elections in February 2025 plans to unleash significant fiscal stimulus and implemented proposed wide-ranging changes to Germany's debt brake framework, with a significant associated growth impulse. Germany retains fiscal headroom, with a debt-to-GDP ratio of around 63% at YE 2024. It is rated AAA/Stable by Scope Ratings.

Germany is part of the European Banking Union. The ECB directly supervises Significant Institutions (SIs). Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin, the Federal Financial Supervisory Authority) is the National Competent Authority (NCA) for less significant institutions (LSIs).

The BRRD was transposed into German law in 2015. BaFin is the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, BaFin co-operates with the Single Resolution Board (SRB) to prepare resolution plans.

In Germany, deposits are protected via statutory guarantee schemes up to EUR 100,000. Deposits of up to EUR 500,000 are protected for up to six months if these are considered particularly worthy of protection, such as deposits resulting from a recent sale of private real estate. In addition, voluntary deposit insurance schemes exist, protecting deposits not falling under statutory protection. Statutory protection schemes are the Compensation Scheme of German Private Banks (Entschädigungseinrichtung deutscher Banken, EdB), and the institutional protection schemes of savings and co-operative banks. Germany has not implemented a general depositor preference.

Germany's banking sector is highly fragmented. Large savings and co-operative banks groups compete with a small number of larger banking groups, such as Deutsche Bank (A-/Positive) and Commerzbank (A/Stable) for market share. As of YE 2023, the share of the five largest credit institutions in the sector's total assets was just 33%. There has been no major consolidation among larger players (although there is speculation about a merger of UniCredit HVB and Commerzbank). Mergers at a smaller level, in particular within the co-operative and savings banks sectors, are fairly common.

Structurally low profitability, albeit on an improving trend

Strong competition, elevated cost bases with dense branch networks and staff costs, and large parts of the system being less-profit-seeking than listed banks, means aggregate profitability is low. In line with other EU banking systems, higher interest rates have supported higher profitability in recent years, while more structural improvements have also supported the improved trajectory for large players.

Customer deposits represent the predominant funding source, with a total share in liabilities 50% in June 2024, comprising around 20% in household deposits, 13% from non-financial corporates and 17% in other deposits.

Relatively reliant on deposit funding

While asset quality has been historically very solid and supportive of banking sector performance, there has been a recent uptick in corporate insolvencies hence associated higher risk costs, in particular in the SME and CRE segments in Germany, reflecting economic pressures. The aggregate NPL ratio stood at 1.6% as of FY 2024, up from a low of around 1% in Q2 2022, but broadly in line with pre-Covid levels.

Some deterioration in cost of risk, but to remain overall manageable

In 2025, we expect continued pressure on cost of risk, but levels will remain contained and manageable. Downside pressures could stem from a further escalation in the trade war with the US that will weigh on the corporate outlook and particularly affect SMEs exposed to export-heavy industries such as automotive. Upside factors could materialise if the recently unveiled borrowing plan by the CDU/CSU and SPD coalition leads to higher-than-expected near-term growth, as investment and sentiment significantly improve.

Greece – Moderately Supportive High

Ongoing economic recovery on the back of investments

Greece has a small yet developed economy. The country is a world leader in shipping. Other key sectors are tourism, agriculture and manufacturing. The economy is gradually recovering from a severe debt crisis, which led to bailout programmes, a debt restructuring, and austerity measures. However, the country's real GDP per capita remains some 40% below the EU average.

Since 2020, Greek economic growth has been robust thanks to strong private consumption and the recovery in private investment, government measures, and Greece's National Recovery and Resiliency Plan. We are forecasting output growth of 2.2% in 2025 and 1.6% on average from 2026 to 2029, while growth potential is at 1.25%.

Scope upgraded Greece to investment grade in 2023 and raised the rating by one notch in December 2024 to BBB/Stable, backed by expectations of a further reduction in the government debt-to-GDP ratio, stronger-than-anticipated primary fiscal surpluses, a recovering banking system and a reduction in economic imbalances.

Large public debt burden is the country's main weakness

The high level of public debt (158% of GDP) is the country's main weakness, as it can constrain the government's ability to support the economy during downturns.

Political and policy-related risks are moderate over forthcoming years but may rise in the longer term. Structural economic weaknesses and demographic challenges such as net emigration restrict longer-run trend growth and wealth levels.

While unemployment has edged lower in 2024 to 9.4%, it remained well above the EU average of 5.9% as of October 2024. Households still suffer from low wages, about 20% lower than 15 years ago, as well as low disposable income. These factors represent a social challenge as do poverty and social exclusion among vulnerable groups. Moreover, the comparative prevalence of low-income jobs and of small and medium-sized enterprises weigh on productivity and the tax base.

Having started to ease monetary policy in 2024, we expect the ECB to continue to cut interest rates over the next two years, even though inflationary pressures remain due to tight labour markets, higher energy prices given Europe's low gas supply, and tariff threats.

Greece is part of the European Banking Union. The Bank of Greece (Trapeza tis Ellados), the central bank, is the National Competent Authority (NCA) for less significant institutions (LSIs) in Greece. The Bank is also the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, the Bank co-operates with the Single Resolution Board (SRB) to prepare resolution plans.

Over the past decade, the ECB has demonstrated a willingness and ability to support the financial system with conventional and unconventional monetary policy instruments. Targeted longer-term refinancing operations (TLTROs) were a key measure between 2014 and 2024 to stimulate bank lending in the wake of the euro sovereign debt crisis and during the Covid-19 pandemic. Greek banks have been large recipient of TLTRO funds in the euro area.

In Greece, the deposits of individuals and small businesses are protected by guarantee schemes up to EUR 100,000. The Hellenic Deposit and Investment Guaranteed Fund (TEKE) operates the deposit guarantee and investment compensation schemes, as well as the Resolution Fund for credit institutions. It is governed by law 4370/2016. Coverage is compulsory for all 13 Greek banks, foreign branches of Greek banks and domestic branches of banks incorporated outside the EU. In Greece, full depositor preference is in force, meaning that bank deposits, including uninsured deposits, have priority over other senior unsecured debt claims.

Following significant consolidation during the decade of severe crisis in which banking assets shrank by 60%, four banks now dominate and hold over 90% of banking sector assets: National Bank of Greece, Eurobank, Alpha Bank, and Piraeus Bank.

Sector revenues are mostly derived from net interest income, reflecting the focus on lending and the low market penetration of non-bank financial services. This leaves banks more exposed to the interest rate cycle than international peers.

Given the characteristics of the Greek banking sector, including a relatively small mortgage market, lending is geared towards businesses, with a fairly high exposure to shipping and tourism. We expect the average quality of corporate customers to be more resilient than in the past, having already withstood a severe deterioration in the operating environment in the 2010-2020 decade.

Material improvements in asset quality

The sector's gross NPL ratio fell to 3.6% as of December 2024, from 49% in 2017. Asset disposals have been supported by the Hellenic Asset Protection Scheme, which was introduced in 2019 and has since been extended several times. Banks have not only cleaned up their balance sheets but also improved their lending and monitoring standards.

Customer deposits, particularly from retail customers, are the main source of funding for the system. After flowing out of the system during the sovereign debt crisis, deposits have gradually returned and outpaced loan growth for almost a decade. During the pandemic, social transfers from the EU and the government led to a further strengthening of the deposit base.

Domestic banks are large buyers of Greek sovereign bonds, feeding market concerns about the bank-sovereign doom loop. We calculate that Greek sovereign securities represent about 140% of Tier 1 capital on average for the three systemic banks in the EBA sample as of September 2024 (EBA).

Sector revived after the pandemic

The Greek banking sector is experiencing a period of revival, underpinned by strong corporate and consumer lending, high interest margins, declining cost-income ratios and risk costs, and solid asset quality. The four largest Greek banks are currently among the most profitable institutions in the EU, thanks in part to their high domestic market shares. Barring an unexpected recession, we forecast double-digit returns on average equity in 2025 and 2026.

Hungary – Moderately Supportive High

The Hungarian economy is one of the largest in Central and Eastern Europe. It is a developing, export-oriented economy centred on services (particularly trade, banking and tourism), which account for almost 60% of total output. Hungary also has a strong industrial sector that attracts large amounts of foreign investment. Automotive, electronics, pharmaceuticals and chemicals are prominent segments.

Despite high growth over the last 25 years, real GDP per capita is still well below the EU average.

Foreign investments and EU funding will support medium-term growth

Supply-chain disruptions, lower demand from key export partners, inflation, and high borrowing costs have weighed on the Hungarian economy since 2023. Medium-term growth prospects look more solid on the back of substantial foreign investments and EU funding. Scope projects a growth rate of 2.8% in 2025, positioning Hungary among the fastest-growing economies in the EU. However, long-term growth faces demographic challenges, as the ageing population and shrinking working-age group could constrain labour supply.

Scope affirmed the Hungarian sovereign rating at BBB/Stable on 8 November 2024. Rating strengths include a sound track record of robust growth and solid medium-term growth prospects, and a robust structure of its external and public liabilities, along with an improved external position, which supports the country's resilience to external shocks.

Hungary's credit ratings face constraints due to elevated public debt with a heightened interest-payment burden; a sustained fiscal deficit reflecting limited fiscal flexibility; weak governance indicators and lingering uncertainty regarding the inflow of substantial EU funds; and heightened vulnerability to external shocks.

Since 2010, Hungary's governance indicators (World Bank) have worsened, as has its relationship with the EU over fundamental disagreements over the rule of law. This has led to delays in the disbursement of EU funds from the Recovery and Resilience Facility. But Hungary is addressing shortcomings to ensure compliance with EU standards on governance, judicial independence, and anti-corruption.

After peaking at 25.7% in January 2023, domestic inflation decelerated rapidly to 3.7% in 2024. The Hungarian National Bank (Magyar Nemzeti Bank, MNB) has been actively cutting the base rate in response. The latest 25bp reduction in September 2024 took the base rate to 6.5% from a 13% peak in September 2022. The central bank continues to take a measured approach to monetary easing, balancing inflation control with management of currency volatility, which remains a key factor in its policy considerations.

Sound regulatory and supervisory framework

Hungary is a member of the Basel Committee on Banking Supervision and is committed to aligning its banking supervision and prudential regulation with the Basel Core Principles. All Basel III standards have been implemented in Hungary. General rules are applicable to banks, as set forth in the 'Banking Act'. The Act does not differentiate between banks based on their size, initial capital, and complexity.

The MNB exercises its banking supervision powers to ensure the stability, soundness, and proper functioning of the Hungarian financial system. It has a macroprudential toolkit that it uses to monitor and address systemic risks in the financial system. This toolkit includes liquidity requirements (short-term maturity match, FX maturity match), capital requirements, stress testing, and mortgage-related requirements.

While it has not joined the European Banking Union, Hungary is subject to the EU framework for banking and financial regulations, including the BRRD, which was transposed into national law in July 2014. The MNB is the national resolution authority.

Deposits of individuals and small businesses are protected by guarantee schemes up to the equivalent of EUR 100,000, in compliance with EU directives. This includes both forint and foreign currency deposits. The National Deposit Insurance Fund (Országos Betétbiztosítási

Alap, OBA) covers 18 Hungarian banks and five specialised credit institutions. Full depositor preference is in force, meaning that bank deposits, including uninsured deposits, have priority over other senior unsecured debt claims.

The central bank has several instruments at its disposal to inject liquidity into the banking system to ensure stability and facilitate monetary policy transmission, including an overnight lending facility (against a range of collateral); FX-swap instruments with various maturities and; long-term collateralised credit facilities to banks.

We expect the MNB to fully support forint liquidity at times of liquidity stress, although its ability to support foreign currency liquidity is more limited. However, under the eurosystem repo facility for central banks (EUREP), the MNB can obtain euro liquidity from the ECB against the provision of euro-denominated collateral.

Moderately concentrated banking sector

The Hungarian banking sector is moderately concentrated and dominated by OTP, which holds market shares of around 30% among retail customers and 20% among business clients. The top five institutions make up more than 50% of total domestic assets. Five out of the seven largest private banks are subsidiaries of foreign groups: KBC (K&H Bank), UniCredit, Erste Bank, RBI and Intesa. International players hold between 30% and 40% of the sector, much less than the CEE average of roughly 60%-70%).

Domestic customer loans divide into non-financial companies (49% as of September 2024), households (42%) and other financial corporations. Like in other CEE countries, consumer lending accounts for more than 40% of household lending, which is a much larger percentage than for banks in Western Europe. Since 2016, customer loans have expanded at a robust CAGR – mortgages at 9%, consumer loans at 9.5%, and business loans at 10.4%.

Credit expansion has been accompanied by a substantial improvement in asset quality. The non-performing loan (NPL) ratio has drastically declined over the past years to 2.3% as of YE 2024, from 17% in 2013.

Funding and liquidity position is sound. In 2023, banks accumulated liquidity reserves due to the attractive deposit rate at the central bank. At the same time, deposit growth outpaced loan growth, supporting liquidity metrics. Deposits provided a stable source of funding even despite the rapid decline in rates in 2024.

Domestic banks are highly exposed to Hungarian government bonds. As of YE 2024, we estimated that Hungarian banks' exposure to the domestic sovereign bonds is well above 10% of total assets.

The Hungarian banking sector has been subject to several government levies since 2010. As of YE 2024, these include a bank tax: 0.2% of total assets at T-2; a windfall tax: 7% of T-2 profits before tax net of dividends, extraordinary results and banking taxes on up to HUF 20bn, then 18%. This can be reduced by up to 50% if banks increase their stock of Hungarian government bonds; and a financial transaction tax on various retail operations, including cash withdrawals.

Government interference is a concern

In addition, the Hungarian government has introduced several interest-rate caps on SMEs and home mortgages to mitigate the impact of rising interest rates. These measures have had a negative impact on banks' margins and lending, while interfering with the transmission of monetary policy. The government is currently considering a new 5% interest-rate cap on housing loans.

Since 2017, the banking sector has been characterised by high interest margins, low cost-to-income ratios, moderate loan losses and sound bottom-line returns. Since 2022, in a high inflationary and interest-rate environment, Hungarian banks have been performing well, offsetting the impact from the interest-rate cap and from new taxes.

We are optimistic about the earnings outlook for 2025 given the expected rebound of the Hungarian economy. In our view, downside risks mainly stem from a worsening of geopolitical crisis affecting public confidence, the economy, and financial markets in Europe.

Italy – Supportive Low

Large and diversified economy but with an uneven distribution of wealth and development

The Italian economy is well diversified. One of its defining traits is the prevalence of small and micro enterprises, which are often family owned. This is mirrored in banks' loan books, where SME loans often account for the lion's share.

As of YE 2024, the country's real GDP per capita was in line with the EU average. However, wealth is concentrated in the north, while southern regions are lagging in many social and economic aspects, such as growth, employment, infrastructure development and education.

The rapid economic recovery after the Covid-19 pandemic was short-lived. In 2024, GDP grew by only 0.7%. Over the next few years, Scope expects growth to converge towards the long-term potential of 1%. There is upside potential from efficient implementation of public investment and reforms related to Next Generation EU funds. Italy will receive EUR 191.5bn by 2026.

Scope rates Italy at BBB+ with a stable outlook. The strong European monetary and fiscal policy framework within the EU and euro area institutional architecture and the resilience of the economy are key factors supporting the rating.

Large public debt burden is the country's main weakness

Chronically weak public finances, with high government debt of around 137% of GDP in 2024 and high financing needs of around 24% of GDP, limit the government's ability to support the economy in times of need. In addition, historically low productivity, a lack of effective structural reforms and weak demographics limit Italy's GDP growth potential.

Italy is renowned for its political instability (68 governments in 77 years). Political turmoil can weigh on investor confidence and influence the spread between 10-year Italian bond yields and their German equivalent, with repercussions for banks' funding costs. That said, the country is experiencing a period of unusual stability thanks to the comfortable majority held in the parliament by the centre-right coalition.

Having started to ease monetary policy in 2024, we expect the ECB to continue to cut interest rates over the next two years, even though inflationary pressures remain due to tight labour markets, higher energy prices given Europe's low gas supply, and tariff threats.

In Italy, the ECB directly supervises systemically important banks, while the Bank of Italy oversees smaller institutions within the Single Supervisory Framework (SSM). The Bank of Italy is also the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, the Bank of Italy co-operates with the Single Resolution Board (SRB) to prepare resolution plans.

The deposits of individuals and small businesses are protected by guarantee schemes up to EUR 100,000. The Interbank Deposit Guarantee Fund (Fondo Interbancario di Tutela dei Depositi, FITD) covers all Italian banks and branches of non-EU banks authorised in Italy if they already participate in an equivalent scheme in their home countries. Participation by Italian branches of EU banks is voluntary. Co-operative banks are members of a different scheme (Fondo di Garanzia dei Depositanti del Credito Cooperativo, FGD). Full depositor preference has been in force since 1 January 2019, meaning that bank deposits, including uninsured ones, have priority over other senior unsecured debt claims.

Fragmented banking sector

The Italian banking system is relatively fragmented, with a handful of banks competing at the national level alongside regional and co-operative banks. As of YE 2024, the share of the five largest credit institutions in the sector total assets was just under 50%. However, consolidation is underway, especially among the largest players, and current bids (notably UniCredit's bid for Banco BPM and MPS's bid for Mediobanca) could reshape the domestic competitive landscape.

Revived sector after the pandemic

Since the Global Financial Crisis, the Italian banking sector has been characterised by low margins, inefficiencies, and high impairments, all of which have weighed on profitability. However, after cleaning up their balance sheets and because of the ECB’s rate hikes, banks are now enjoying a period of increased profitability, driven by widening interest margins and low credit costs.

Customer deposits are the main source of funding for the system, while reliance on wholesale issuance has greatly diminished since the GFC. During the pandemic, Italian banks widely used the ECB’s Targeted Longer-term Refinancing Operations (TLTRO III).

Once the Achilles heel of Italian banks, asset quality is now solid. The sector's gross NPL ratio had fallen to 2.8% as of December 2024, from 17% in 2015. Banks have not only cleaned up their balance sheets, they have also improved their lending and monitoring standards. Some lenders have partnered with servicers to facilitate the work-out of NPLs.

No signs of credit deterioration

In 2025, we do not expect a material deterioration in asset quality barring a sharp economic downturn. With easing borrowing costs and employment at record highs, retail loan books are performing well. At the same time, low but positive economic growth should support corporate credit quality.

High exposure to the domestic sovereign

Domestic banks are large buyers of Italian sovereign bonds, feeding long-run market concerns about the bank-sovereign doom loop. Periods of sovereign market turmoil, such as in 2018, can hamper banks' access to capital markets, which in turn negatively impacts funding costs. We calculate that Italian sovereign securities represented about 15% of the sector's aggregate balance sheet as of January 2025.

Ireland – Supportive Low

Wealthy and diversified open economy a hub for multinationals

Ireland benefits from high wealth levels and a competitive economy. It is supported by high value-added sectors such as pharmaceuticals, information and communication technology, which underpin the country's robust growth potential. The country has a favourable business environment and successfully established itself as a hub for multinational corporations. Euro-area membership supports Ireland's high-growth economic model, helping to attract foreign investment.

Multinationals play a pivotal role in Ireland's economy, particularly through their significant contributions to corporate taxes. While this reliance introduces a degree of vulnerability should Ireland's appeal as a business hub decline (not expected), it also serves as a major driver of the country's exceptional economic growth and improving fiscal outlook.

Ireland's domestic economic growth, as measured by modified domestic demand (MDD)[5], has proven resilient during recent crises and is expected to remain robust over coming years. According to the Central Bank of Ireland, MDD is set to grow by 2.7% in 2025, supported by low unemployment of around 4.6%, inflation of around 2.2%, and rising real wages.

Scope rates Ireland at AA/Stable, noting fiscal surpluses and declining debt metrics, bolstered by corporate tax revenues from multinationals. The establishment of the Future Ireland Fund and the Infrastructure, Climate and Nature Fund further supports fiscal policy in the medium- and long-term.

Uncertainties surrounding the US trade policies pose risks

However, Ireland remains a small, open and export-oriented economy, susceptible to external and financial shocks. Geopolitical tensions and uncertainties surrounding the US trade policies pose risks. The US is a critical trading partner for Ireland, with nearly one-third of total goods exports directed to the US. The recently imposed new tariff on EU goods is expected to negatively impact Irish industries, particularly food and beverages. While the new US tariffs exclude pharmaceuticals, future measures may target this key sector for the country and result in a material reduction in Ireland's GDP. Any shifts in US corporate tax policies could affect the volume of foreign investment flowing into Ireland.

To sustain long-term economic growth and social well-being, addressing critical challenges such as housing affordability and infrastructure development is essential.

Strong regulatory and supervisory framework

Ireland is part of the European Banking Union. The ECB directly supervises Significant Institutions (SIs), while national authorities oversee less significant institutions (LSIs) within the SSM and under the oversight of the ECB. The Central Bank of Ireland is the National Competent Authority (NCA) for less significant institutions (LSIs) as well as the national resolution authority.

Customer deposits held in authorised banks are protected by the Deposit Guarantee Fund (DGF) to EUR 100,000. The deposit protection limit applies to the total eligible deposits per holder and per financial institution. Non-preferred deposits (not guaranteed, not retail and SME) rank on a par with other senior unsecured creditors.

Highly concentrated domestic banking sector

The Irish banking sector is highly concentrated with two leading local players, Bank of Ireland and AIB. Together with a third, smaller bank, Permanent TSB, they account for the bulk of domestic banking assets (or more than 80% of Irish-headquartered groups). The system is also characterised by the presence of large international banks (including Barclays and Bank of America).

[5] Alternative measures of modified gross national income (GNI) and modified domestic demand (MDD) better reflect the domestic economy, excluding the influence of multinational companies and global financial flows that can distort traditional measures like GDP.

The withdrawals of NatWest (parent of Ulster Bank) and KBC (parent of KBC Bank Ireland) have driven the consolidation of the Irish banking sector in recent years, which has contributed to the resilience of the domestic banks.

Both, BOI and AIB, were placed under the control of the Irish state following the Global Financial Crisis but the government has since sold its stake in BOI and is gradually selling off its stake in AIB. As of 7 March 2025, the government's stake was 11.99%.

Asset quality has improved significantly in recent years

The Irish banks are well capitalised with strong liquidity buffers and improved funding profiles. The management of legacy NPLs has been a key priority and significant progress has been made. Credit quality has improved thanks to supportive economic conditions and active management of legacy non-performing exposures and remains solid. Tighter underwriting criteria (including the mortgage measures) were introduced in 2015 as a corrective measure. The resilience of asset-quality indicators in case of a prolonged economic shock has yet to be tested.

The sector's profitability metrics have improved in recent years as a result of higher interest rates, a growing deposit base with low deposit beta, loan growth and progress in reducing non-performing loans. Enhancing cost efficiencies is critical for Irish banks.

Netherlands – Very Supportive Low

Wealthy and highly diversified economy

The Dutch economy is wealthy, highly diversified and competitive. The Netherlands benefits from a strong external position, a long record of prudent fiscal policy and from European Union and euro area membership. The Netherlands is the EU's fifth largest economy with nominal GDP amounted to USD 1.2trn as of end-2024. The country's real GDP per capita USD 68k as of end-2024 is well above the EU average.

The economy was more resilient than its European peers during and after the Covid-19 pandemic. After a slowdown in 2023-2024, we expect a gradual recovery in economic growth by 1.4% in 2025 and 1.3% in 2026, supported by lower inflation and stronger private demand. However, we expect headline inflation to decline more slowly than in most EU countries.

The Dutch labour market is characterised by a persistent shortage of labour supply and a high share of part-time employment. This is a source of unemployment volatility, although unemployment remains at low 4%

High outstanding private-sector debt is a source of structural vulnerability

Private sector debt stood at 198.7% of GDP as of end-2024 (according to Eurostat) is a source of structural vulnerability even if it decreased from a 273.8% peak in 2014. The average net household debt position is sizeable but consists mainly of mortgages with long fixed-rate periods, which largely mitigate risks.

Highly rated sovereign able to support economy in downturns

Scope rates the Netherlands at AAA/Stable. With low public debt of 44.8% in 2024, the Netherlands has significant fiscal flexibility. We expect the debt-to-GDP ratio to rise slightly over the next five years, reaching 51.4% by 2029, driven by higher spending on interest, healthcare, and investment needs, though the ratio will remain moderate. The country's external-sector resilience is supported by high, recurrent current-account surpluses, typically close to 10% of GDP, and a strong net international asset position.

The open Dutch economy remains sensitive to global economic changes and geopolitical tensions. As the third-largest exporter of goods and services within the EU, the Netherlands is deeply embedded in global supply chains. The new US import tariffs, along with a slowdown in key EU trading partners, especially Germany, pose risks that could dampen the pace of recovery. The relatively low 6% share of exports from the Netherlands to the US compared to other EU peers, along with the competitiveness of the Dutch economy and the exemption of pharmaceuticals from new tariffs soften the impact on Dutch growth.

The Dutch banking system has proven its resilience to adverse scenarios, tested by multiple crises, international geopolitical tensions and macroeconomic challenges. The features of the Dutch banking landscape and well-developed capital markets combined with healthy capital ratios and comfortable liquidity should help banks weather economic challenges. The main risks stem from high household and corporate debt, real estate, cyberattacks and climate change.

Strong regulatory framework, largely aligned with Basel III

The Netherlands is part of the European Banking Union, which has brought about a significant strengthening and harmonisation of bank regulation and supervision under the ECB's Single Supervisory Mechanism (SSM).

The Dutch central bank, De Nederlandsche Bank (DNB), is responsible for prudential supervision. Market conduct is supervised by the Dutch Financial Market Authority (De Autoriteit Financiële Markten, AFM). DNB acts as the resolution authority with the four ECB resolution tools: bail-in, sale of business, asset separation, and transfer of all or part of a failing bank to a bridge bank.

Anti-money laundering and know-your-customers initiatives are a source of regulatory attention. The Netherlands has established a comprehensive framework to combat money laundering and terrorist financing, in line with international standards and regulations. The related project costs are meaningful for banks, spanning years and weighing on efficiency.

The Netherlands has record of supporting financial stability

The ECB and the DNB are the lenders of the last resort and have demonstrated the ability and willingness to support the liquidity of banks if needed. Three of the four largest commercial banks – ABN AMRO, ING, and Fortis – benefited from government support measures during the Global Financial Crisis; SNS Reaal (now de Volksbank) was nationalised in 2013. The banks have implemented de-risking programmes to generate more consistent and solid earnings.

The government's stake in ABN AMRO is being reduced progressively. NL Financial investments, the agency holding the shares on behalf of the government, intends to reduce its stake from 38.5% to 30%. De Volksbank is still fully owned by the Dutch government. Progress towards privatisation is regularly reviewed.

Customer deposits are protected by the Deposit Guarantee Fund (Nederlandse Depositogarantie) up to EUR 100,000 for each person, per authorised bank. Additional protection for six months up to EUR 500,000 applies to a temporary deposit held for certain situations.

Concentrated and oligopolistic banking market

The Dutch banking sector is sound, dominated by a small number of large domestic banks with diversified business models (ING, Rabobank, ABN AMRO). Smaller institutions have more focused business models: De Volksbank (a mortgage lender); BNG and NWB (promotional banks); Achmea Bank, NN Bank (subsidiaries of insurance groups); and several automotive banks. The assets of the five largest banks as a share of total banking assets is around 82%, one of the highest banking concentrations in Europe. There is no large foreign-owned bank operating in the country.

Given the critical role of digital capabilities in banking and high customer expectations, banks are developing strategic digital initiatives, increasingly using AI tools, downsizing branch networks and improving efficiency while maintaining high levels of data privacy and cybersecurity.

Dutch financial institutions are exposed to the effects of climate change through both physical and transition risks. Physical risks are mostly represented by flood risk while transition risks are primarily driven by corporate exposures in the loan book. The Dutch economy has significant exposure to agriculture. Sustainability risks are proactively addressed, and the sector is cooperating well in this area through different initiatives and tools.

Dutch financial institutions have one of the largest stocks of mortgage debt in Europe amounting to over EUR 851bn or 75% of GDP as of end-2024. Banks are the biggest players in the Dutch mortgage market and have more than EUR 591bn in outstanding mortgages, or 69% of total mortgage volumes. Dutch authorities have adopted measures aimed at curbing growth of mortgage debt. In August 2024, the DNB extended its stricter approach to capital risk weighting of residential mortgages until 2026 amid recent sustained real estate price increases. The maximum LTV ratio at origination at 100% remains high.

High share of mortgage lending supports asset quality

Asset-quality metrics are in line with the European average, and provisions are generally lower due to the secured nature of loan books and banks' favourable credit-loss histories. Asset quality is also supported by the large share of fixed-rate long-term mortgages, low unemployment and growth in nominal wages. We anticipate a slight deterioration in asset-quality metrics this year, mostly coming from lending to corporates and small and medium-sized enterprises, although we expect any deterioration to be manageable.

We believe Dutch banks will continue to report a strong overall performance in 2025 but lower than in 2023 as net interest margins should normalise. Banks are braced for a return to a lower-interest-rate environment, seeking to protect their net interest income and to find ways to increase fees and commissions.

The capital ratios of Dutch banks are high, but they also reflect low asset-risk intensity. Banks have been addressing the impacts of Basel III finalisation, which would have been significant without management actions. The average loan-to-deposit ratio is high as household savings are largely invested in pension plans, while banks channel funds actively through the wholesale market. System-wide liquidity buffers remain comfortable.

Norway– Very Supportive Low

Norway is a relatively small open economy with one of the world's highest levels of per capita income, supported by its energy and resource-rich foundations. Norway is one of the world's largest oil and gas exporters. Growth in the Norwegian economy remained robust in 2024 and is expected to moderate driven by investment in the oil and energy sectors. Scope forecasts GDP growth of 1.9% in 2025 and 1.7% in 2026. Norway is a member of the European Economic Area (EEA).

At the time of the Covid-19 pandemic in 2020, Norges Bank, the central bank, cut interest rates to zero before gradually increasing them. Since September 2023 interest rates have remained at peak levels of 4.5%. Expectations are that the Bank will begin to cut rates in 2025 as long as inflation remains on track and moves towards target levels.

Unemployment remains low, reflecting the country's robust labour market, characterised by a highly-educated workforce, strong labour unions, labour protection and social policies. Scope forecasts unemployment at 4% in 2025 and 4.1% in 2026.

A very strong government fiscal position provides ample room to support the economy as needed. Norway has the world's largest sovereign wealth fund, the Government Pension Fund Global, worth almost USD 1.8trn. Underpinned by oil and gas revenues and a sustainable approach with a long-term vision and management of its resources, the fund allows for ample economic maneuverability in times of stress.

The high home ownership rate of around 80% has led to high levels of household debt, both in historical terms and compared to other countries. Macroprudential measures for mortgages and consumer debt are in place to manage risks, such as a maximum loan-to-value limit of 85%, a debt-to-income limit of 5x annual income and interest-rate stress testing of mortgage borrowers. Mortgage debt in Norway is primarily in floating rate.

As a natural resource-rich nation, the country faces long-term transition risks to a non-commodity-dependent economy. Approximately half of the country's total exports are related to oil and gas.

Scope rates Norway at AAA/Stable. The rating is underpinned by a resilient economy and expected continued overall general government fiscal surpluses; a significant net public asset position, driven by savings accumulated through its sovereign wealth fund; and strong fiscal, monetary and financial governance institutions.

Norway also benefits from low central government debt, issued only to finance capital expenditure, and institutional strengths as a mature economy with one of the world's highest per capita income levels.

A rigorous regulatory framework is in place. Banks are supervised by the Norwegian FSA (Finanstilsynet) and are subject to some of the highest solvency requirements among European banks.

The Norwegian banking system is dominated by DNB, with a market share of around 25%. Nordea and other foreign banks account for about 20% of the retail market and 30% of the corporate market. The sector also consists of a number of savings banks, which vary in size from smaller local banks to larger regional banks, such as Sparebanken Norge and Sparebank 1 Sor-Norge. Over time, mergers have reduced the number of savings banks to around 80, and we expect that number to fall to 50 if the current pace of consolidation continues. Mergers have been the result of competition and regulatory pressures. Digitalisation among Norwegian bank is high and the use of cash is amongst the lowest in the world.

Savings banks are commonly part of alliances, which allows member banks to meet the broader financial needs of their customers through shared product factories such as asset management, insurance, credit cards, leasing and car loans. Additionally, alliance membership supports cost efficiency through shared IT infrastructure and banking operations.

Residential mortgages account for more than half of total lending in the banking sector, with corporate lending accounting for around a third. The largest segment for corporate lending is the commercial real estate sector, accounting for close to half of all corporate lending. Exposure to commercial real estate firms has been a long-standing structural vulnerability of the financial system.

Norwegian banks have generally been profitable, cost efficient and have benefited from the high post-pandemic interest-rate environment. The sector's return on equity for 2024 was 15.4%. For 2025, we expect profitability to moderate as net interest margins decline along with the expected decline in interest rates. However, credit growth will mitigate the impact on net interest income.

Asset quality as a whole is sound with some sectors performing better than others. The sector-wide stage 3 ratio stood at 1.4%. We expect asset quality to benefit in the near term from lower interest rates. The easing of financial conditions, including a slight easing of macroprudential residential real estate exposure (RRE) requirements, may bolster housing markets. This will, in turn, support the recovery of property developers, amid pent-up demand and few housing completions in recent years.

Norwegian banks remain well capitalised owing to comparatively stringent capital requirements. In 2025, Norwegian banks with residential real estate (RRE) and commercial real estate (CRE) portfolios using the Standardised Approach will gain material RWA savings from the introduction of CRR3. IRB banks, on the other hand, will see increases as the Norwegian average risk weight floor on RRE exposures will be increased from 20% to 25%, expected to outweigh the removal of the Norwegian Loss Given Default floor of 20%.

Customer deposits are the primary source of funding for most Norwegian banks but market funding is also material, especially covered bonds, issued via wholly owned or alliance covered bond issuing entities.

Norway's deposit guarantee scheme is run by the Norwegian Bank Guarantee Fund (Bankenes sikringsfond). Membership is mandatory for all Norwegian banks and subsidiaries of foreign banks. The scheme protects deposits up to NOK 2m per depositor, which at EUR 170k-equivalent is significantly higher than the EU's standard protection of EUR 100,000.

Finanstilsynet is the responsible resolution authority in Norway. The framework for bank resolution is based on the Financial Institutions Act and is aligned with the EU Bank Recovery and Resolution Directive. Finanstilsynet can apply the standard resolution tools: bail-in, sale of business, asset separation, and transfer of all or part of a failing bank to a bridge bank.

Norges Bank is the lender of last resort and has demonstrated an ability and willingness to support bank liquidity. The central bank can provide liquidity to the banking sector in the form of F-Loans (market operations) and D-Loans (intraday facilities). During the Covid-19 pandemic, F-Loans were deployed.

Portugal – Supportive Low

Small but open economy, with a large services sector

Portugal's economy is relatively small but well-integrated and competitive. With GDP per capita of USD 30,000 at YE 2024, albeit still below the euro area average of USD 36k, the country has achieved steady and positive growth boosted by private consumption, strong net exports of services including tourism and investments.

Scope rates Portugal at A/Stable. The country has demonstrated significant improvements in economic resilience, with strong growth momentum following the pandemic. Growth is supported by rising real wages, higher investments and availability of resources from the EU Recovery and Resilience Plan.

The labour market has improved significantly. Unemployment has fallen steadily to 6.4% in December 2024 from a peak of 18.5% in 2013, driven by reforms that have enhanced job quality and boosted social security contributions that have increased budgetary flexibility. Employment growth has moderated recently, reflecting tight labour markets in sectors like manufacturing and construction, which are experiencing wage pressures.

Recent policy initiatives, such as substantial tax incentives for young workers offering up to a 100% income tax exemption in the first year, aim to reduce emigration and foster economic resilience. Large positive net migration has allowed the country to confront the challenge of a shrinking domestic working-age population. However, the steady increase in an ageing population remains a concern, as the working-age population is forecast to decline at a faster pace than the EU average.

The country's economic stability is reinforced by an improved external position and progress in reducing external vulnerabilities, with public debt reaching 91% of GDP in 2024.

The current account moved from a deficit in 2022 to a surplus in 2023, supported by strong export growth, which remains at around 2.0% of GDP for 2024. The high and growing share of renewable energy is reducing import dependence and bolstering the energy trade balance. Structural advancements, particularly in renewable energy, are expected to sustain current account surpluses, further strengthening the country's external position.

Following the deleveraging of the economy after the crisis, household indebtedness has continued the downward trend observed over the past decade. Household indebtedness accounted for 82.3% of disposable income in June 2024, close to levels recorded in 2001, and below the EU average (87%).

Strong regulatory and supervisory framework

Portugal is part of the European Banking Union. The ECB directly supervises Significant Institutions (SIs), while national authorities oversee less significant institutions (LSIs) within the SSM and under the oversight of the ECB. The central bank (Banco de Portugal) acts as the National Competent Authority (NCA) for less significant institutions (LSIs) as well as the National Resolution Authority.

Deposits of individuals are protected by guarantee schemes up to EUR 100,000. The National Deposit Guarantee Scheme (Fundo de Garantia de Depósitos, FGD) covers all Portuguese banks and branches of non-EU banks authorised to operate in Portugal. Full depositor preference has been in force since March 2019, meaning that bank deposits, including uninsured deposits, have priority over other senior unsecured claims.

Portuguese households and businesses have significantly deleveraged since 2008. Private-sector debt-to-GDP fell to 130% in 2023 from a peak of 204% in 2009. This has led to a large and steady reduction in the size of the banking sector and banks' balance sheets.

Fragmented banking sector

The Portuguese banking sector has been subject to a restructuring and deleveraging since 2012 and following the failure of Banco Espirito Santo (BES) in 2014. The good assets of BES were transferred to what is now Novo Banco, which has started preparations for an initial public offering or sale.

The country's largest bank, the state-run Caixa Geral de Depósitos, has successfully completed its restructuring and downsizing. The aggregated capital generated since 2017 has exceeded the scale of public investment in the recapitalisation plan.

Asset quality has improved significantly from the peak of 2015, when the NPL ratio reached 17%. As of YE 2024, the sector's NPL ratio has reached the lowest level for the past decade, at 2.4%. Capital has also strengthened steadily, with the aggregate level of CET 1 rising from 11% in 2014 to 18% by YE 2024. Still, Portugal's banking sector shows capital levels and asset-quality metrics below most EU peers. However, reliance on deposit-based business models, with wholesale funding below average EU levels, is a key strength that reduces the risk of volatility in market funding.

Spain – Supportive Low

Large, open and well-diversified economy

Spain's economic strength is based on an open and well diversified services sector. Between 2014 and 2024, Spain real GDP grew by 2%, more than its main EU peers. Economic activity outperformed the EU area in 2024, growing 3,2%, supported by higher consumption and better performance in tourism and non-tourism-related services. Spain is the fourth largest economy in the EU with a nominal GDP and GDP per capita of approximately USD 1.7trn and USD 36k, respectively, as of December 2024. GDP per capita has been rising steadily and has approached its EU peers in recent years.

The country has enjoyed remarkable economic and financial stability in recent years and has actively implemented reforms to modernise its institutional framework, triggering a dynamic recovery after the Covid-19 pandemic. While economic growth has been robust, Spain has lower productivity and per capita income compared to other advanced economies, highlighting the need for further structural reforms to enhance sustainable economic growth.

The high level of structural unemployment in the country continues to be a hurdle for the domestic economy

Spain's unemployment rate stood at 10.6% as of December 2024, higher than the EU area average. The labour market has strengthened since reforms were enacted in 2021, which reduced the share of temporary employment and brought the unemployment rate closer to the EU average.

Scope rates the Kingdom of Spain at A with a Stable Outlook. The rating is supported by a more resilient, diversified and sustainable economy and sustained fiscal consolidation

Credit weaknesses stem from high and rising levels of public debt, which lead to lower capacity to respond to a financial crisis and more reliance on the goodwill of investors; structurally high unemployment and tight domestic labour regulations; weak productivity levels; and continued polarisation and fragmentation of the domestic political landscape.

Housing affordability is a key concern of the population due to a material rise in house prices

Lack of new supply, positive net migration, higher-for-longer interest rates and the effects of inflation on real incomes have exerted material pressure on the housing market. In 2024, the country's average house price-to-income ratio was slightly above 7x, well above the threshold of five years of income used as a broad indicator of affordability. While the ratio has declined since the peak of approximately 9.5x in 2007, it has not been close to the affordability threshold of 5x since the early 2000s.

Spain is part of the European Banking Union. The ECB directly supervises Significant Institutions (SIs), while national authorities oversee less significant institutions (LSIs) within the SSM and under the oversight of the ECB. The Bank of Spain is the National Competent Authority (NCA) for less significant institutions (LSIs) in Spain. The Bank of Spain is the national resolution authority, responsible for crisis management for banks and non-bank intermediaries. For significant banks, the Bank of Spain co-operates with the Single Resolution Board (SRB) to prepare resolution plans.

The Spanish banking sector is led by two globally diversified players, Santander and BBVA, and one large domestic universal bank, CaixaBank. These are followed by several second-tier banks (including Banco de Sabadell, Bankinter, and Unicaja), together with a few regional players such as Kutxabank and Ibercaja.

Highly concentrated and competitive banking sector

The top five banks accounted for close to 70% of the sector's domestic assets as of YE 2023, indicating high banking concentration.

The sector is characterised by strong cost efficiency, which has improved significantly in recent years following the last consolidation cycle in 2020-2021. Profitability metrics have also improved, in line with other European economies (Germany, Italy, Belgium, France), allowing banks to strengthen their financial profiles after years of weak results.

Asset quality is stable, although we expect it to normalise from current low levels as the growth in unsecured consumer and retail lending is riskier than secured loans or mortgages. On the flip side, rising employment levels remain supportive of asset quality.

Branches are still the main distribution channel, but most banking groups have significantly reduced their physical network as part of their restructuring plans. In parallel, Spanish banks are developing digital platforms for product distribution and outreach, in line with international peers.

Customer deposits held in authorised banks and saving banks are protected by the domestic Deposit Guarantee Fund (Fondo de Garantía de Depósitos, FGD) up to EUR 100,000. The deposit protection limit applies to the total eligible deposits per holder and per financial institution. Non-preferred deposits (not guaranteed, not retail and SME) rank on a par with other senior unsecured creditors.

Sweden– Very Supportive Low

Sweden is a small but wealthy and diversified economy, with a GDP per capita amongst the highest in the EU and well above the OECD average. The economy recovered quickly from the Covid-19 crisis, with growth slowing to zero in 2023 but beginning to improve in 2024. The slowdown was driven by the interest-sensitive parts of the economy, including household consumption and residential investment. However, economic performance was more resilient than initially expected due to the robust performance of the manufacturing sector and a resilient labour market. Scope expects GDP growth to be 1.8% in 2025 and 2.8% in 2026.

Starting in 2022, policy rates rose and peaked in mid-2024. The sharp rise in interest rates since 2022 led to a correction in the Swedish housing market. The sensitivity to interest-rate changes has been high due to elevated levels of private debt and short interest-rate fixes on mortgage debt. While prices stabilised since 2023 and started growing again in 2024, but housebuilding remains low. Scope forecasts the policy rate to decline to 1.75% by end-2025 and to remain at that level through 2026. The decline in interest rates and a gradual economic rebound should support the recovery of the real estate market. However, real estate companies will continue to be affected by low property values and high financing costs.

Sweden maintains robust fiscal capacity with low levels of public debt and prudent financial management. The country benefits from a strong external position, supported by consistent current account surpluses over the past two decades, as well as a net external creditor position.

Sweden's labour market is highly unionised and benefits from strong social security and a powerful collective bargaining system. Unemployment has been high in recent times although the labour market has been recovering. Developments have remained subdued, however, amid uncertainty in the global economy. Scope expects unemployment to be at 8.3% in 2025 and 8% in 2026.

Scope rates Sweden at AAA/Stable. The ratings are underpinned by the country's wealthy, diversified and competitive economy; a strong fiscal framework and low public debt; and a robust external position driven by consistent current account surpluses, a net international creditor position and substantial international reserves that shield the country from short-term shocks.

The Swedish banking sector is consolidated, with a handful of large commercial banks and their mortgage subsidiaries controlling most of the market. The four largest banks, Swedbank, Skandinaviska Enskilda Banken, Nordea and Handelsbanken account for around 80% of the sector's total assets. There are also a number of savings banks.

Swedish banks benefit from a stable and well-diversified funding structure, with a large proportion of funding coming from household and corporate deposits (around 60% of total funding) and ample access to international capital markets, mainly via covered bonds and commercial paper. The latter is a well-established source of funding, mainly attracting insurance companies and pension funds. However, it is also a source of risk, given the high degree of interconnectedness in the financial system, which could amplify risks in the event of a severe macro-financial shock.

Profitability amongst the largest banks has been strong, supported by the high-interest rate environment. This has been complemented by low levels of loan losses. Banks in Sweden have significant exposure to the real estate and construction sectors, which have been most affected by the sharp rise in interest rates, a reduction in demand for new housing and house price corrections.

Swedish bank's capital positions remain strong with ample buffers to regulatory requirements. Banks are subject to a comprehensive set of EU regulations, such as capital requirements and limits on large exposures. Sweden is not a member of the European Banking Union and there is no indication that it will be in the near future.

The Swedish Financial Supervisory Authority (Finansinspektionen) is responsible for the supervision of banks. The Swedish National Debt Office (Riksgalden) manages the Depositor Protection Scheme (Insättningsgarantin). The scheme protects deposits up to SEK 1.05m (approximately EUR 100,000).

Riksgalden is also the responsible resolution authority in Sweden. The framework for bank resolution is based on the Swedish Resolution Act and is aligned with the EU Bank Recovery and Resolution Directive (BRRD). Riksgalden has the ability to apply the following resolution tools: Bail-In, Bridge Bank, Asset Sales and Liquidation. The Swedish central bank, Sveriges Riksbank, manages monetary policy and has the power to act as lender of last resort.

Switzerland – Very Supportive Low

Resilient economy with robust fiscal capacity

Switzerland is a wealthy, well-diversified competitive economy with a highly-skilled labour force. Institutional strengths, including a stable, consensus-oriented and effective policy framework, underpin economic resilience. Scope forecasts GDP growth of 0.9% in 2025 and 1.9% in 2026.

As a highly open economy, though, Switzerland is sensitive to global trade shocks and relies on favourable trade relations with its main trading partners. In December 2024, Switzerland and the EU reached agreement on an institutional framework intended to secure free access for Swiss firms to the EU's internal market. Formal ratification will take place in 2026. Scope views this positively as the EU is Switzerland's largest single trading partner, accounting for over half of trade volume in past years.

Scope rates Switzerland AAA / Stable. Switzerland has solid public finances, thanks to a strong commitment to long-term debt sustainability and stringent, constitutionally anchored budgetary rules. The federal government's debt brake and the debt brakes in most cantons require balanced budgets over the economic cycle. The public-debt ratio is expected to decline to around 30% of GDP by end-2025.

Basel III reforms fully implemented

The Swiss regulatory framework is fully aligned with Basel standards. The final Basel III standards have been in force since January 2025, including those relating to market risk, which have been postponed in the EU to January 2026 and may be pushed back by a year.

FINMA, the Financial Market Supervisory Authority, (Autorité fédérale de surveillance des marchés financiers; Eidgenössische Finanzmarktaufsicht) is the supervisory and resolution authority and has a broad range of enforcement and early intervention powers to deal with problem banks. The resolution framework applies to all banks, systemic and non-systemic.

Since 2021, systemic banks[6] have been subject to a too-big-to-fail (TBTF) regime. Following the Credit Suisse crisis, the Swiss Federal Council presented several measures to strengthen the TBTF framework to reduce the likelihood of a systemically important bank falling into distress. The proposals aim to strengthen corporate governance, bank supervision, and as well as capital and liquidity requirements. The Swiss Federal Council plans to present two implementation packages in the first half of 2025, one for measures that can be implemented by ordinance and another for measures that require legislative amendments.

The central bank, the Swiss National Bank (SNB) – Schweizerische Nationalbank; Banque Nationale Suisse – is an effective lender of last resort. For example, it provided Credit Suisse with CHF 168bn in liquidity, the largest amount of liquidity support ever provided to a single bank globally. Emergency liquidity assistance can be provided to banks against a wide range of collateral, including non-securitised mortgages and securities.

To support the acquisition of Credit Suisse by UBS, the Swiss Federal Council activated a public liquidity backstop under emergency legislation in March 2023. The backstop allowed the SNB to provide additional liquidity to a systemically important bank as part of a restructuring, with repayment guaranteed by the federal government. There are ongoing discussions to put in place a permanent public liquidity backstop.

Switzerland has not implemented full depositor preference. Retail deposits up to CHF 100,000 per client are afforded a high level of protection, including enhanced seniority in bankruptcy and a deposit protection scheme guarantee. Deposits that are not secured, e.g. funds in excess of CHF 100,000 per client, do not qualify for special protection compared to other debt claims.

[6] There are four systemic banks: UBS Group AG, Zurcher Kantonalbank, Raiffeisen, and PostFinance.

Large and concentrated banking sector

The Swiss banking sector is large, with total assets of approximately CHF 3.3trn as of Q3 2024. This is equivalent to around 4x Swiss GDP. By comparison, the UK and US banking sectors account for around 3.4x and 1x GDP, respectively. The elevated ratio in Switzerland is driven by the size of UBS, the country's largest bank.

Banking concentration is high, with the assets of the top five banks accounting for more than 80% of the total[7]. This measure is heavily skewed by the size of UBS' balance sheet, which includes international operations. Apart from UBS, banks are predominantly domestically focused. In terms of domestic deposits and loans, the four systemically important banks account for more than half of the total. After the merger with Credit Suisse, UBS enjoys the highest national market share, followed by the Raiffeisen Group.

Zurcher Kantonalbank and PostFinance rank next in terms of overall market share although they have different business models. PostFinance operates nationally but is limited in its lending activities, resulting in a low market share in loans. Meanwhile, Zurcher Kantonalbank, is the dominant player in its home canton of Zurich.

Banking sector profitability has been distorted by one-off effects related to Credit Suisse and UBS. Domestically focused banks, which derive most of their revenue from net interest income, have benefited from higher interest rates since 2022.

Asset quality remains strong and resilient. For domestically focused banks, credit risk stems primarily from mortgages, which account for almost 90% of credit exposure. By customer segment, loans to households account for about two-thirds of credit exposure and loans to non-financial corporates make up around one-quarter. Approximately 15% of total credit exposure is to real estate companies that develop, operate and manage property portfolios.

Macroprudential measures address residential real estate vulnerabilities

The Swiss National Bank's 2024 Financial Stability Report highlighted vulnerabilities in the residential real estate market, with the likelihood and potential magnitude of price corrections being most at risk in the investment property segment. To address these risks, a countercyclical capital buffer specifically for residential mortgages has been used regularly since 2013. The buffer is currently set at 2.5%. Other macroprudential measures are also used, including a loan-to-value cap, and amortisation requirements. In addition, the Swiss Bankers Association has established self-regulation guidelines that are recognised by FINMA as minimum standards.

[7] World Bank, 2021.

United Kingdom – Supportive High

Large, wealthy and well-diversified economy

The resilience of the UK economy is underpinned by a comparatively wealthy and highly diversified economic base. Scope forecasts moderate output growth of around 1% in 2025 and 1.3% in 2026. Support for growth comes from the government's plans to invest in capital infrastructure and social and affordable housing. At the same time, there are still uncertainties surrounding the UK's post-Brexit trading relationship with the EU.

The UK's flexible labour market plays a role in maintaining low unemployment. The unemployment rate stands at 4.4%, near historic lows[8].

Scope rates the UK at AA with a Stable Outlook. Deep domestic capital markets, with the City of London one of the world's leading financial centres, and sterling's standing as a primary global reserve currency are significant strengths. The UK also benefits from robust financial, economic and monetary governance frameworks, including an independent monetary policy.

Rising public debt may limit available support for the economy

However, rising public debt levels may constrain the government's ability to support the economy in times of need. Scope forecasts a continuous increase in UK general government debt to 114% of GDP by 2029, from the estimated 99.5% at end-2024.

After a long period of near-zero interest rates, the Bank of England raised its base rate steadily from December 2021 to August 2023, taking it from 0.1% to a 15-year high of 5.25%. The rate has been cut four times by 25bp to 4.25% by May 2025. Inflation continues to decline but remains comparatively sticky and above the 2% price-stability target. Scope expects the Bank of England to continue cutting interest rates moderately through the rest of this year and in 2026.

Earnings have not kept pace with house prices

High interest rates and affordability pressures pose risks to the UK housing market. In 2024, the median house price-to-earnings ratio was 7.7x in England, well above the threshold of five years of income which is used as a broad indicator of affordability[9]. While the ratio has declined since the peak of 9.1x in 2021, it has not been close to the affordability threshold of 5x since 2001. House prices have increased by approx. 5 times since 1997 while earnings have only doubled.

UK banking regulations are largely aligned with Basel III standards. The implementation of final Basel III standards will start on 1 January 2027, with a three-year transition period and full implementation by 1 January 2030. While the implementation date has been postponed twice, the full implementation date remains unchanged. In the EU, initial implementation started in January 2025 but full implementation will take longer (the end of 2032).

The UK has implemented a full resolution regime for banks. The Bank of England acts as the resolution authority and has five stabilisation tools at its disposal: bail-in, transfer to a private sector purchaser, transfer to a bridge entity, transfer to an asset management vehicle, and temporary public ownership.

Larger banks are also subject to the Resolvability Assessment Framework, which requires them to demonstrate that they would be able to achieve certain outcomes in the event of resolution. The Bank of England also has tools under its Resolution Liquidity Framework to ensure that a bank in resolution continues to have sufficient liquidity to meet its obligations.

Since 2019, the UK has also had a ring-fencing regime in place, which requires UK banks to separate core retail banking services from other activities such as investment and international banking. This currently applies to banks with more than GBP 25bn in retail and SME deposits.

[8] Data as of December 2024, release date of February 2025
[9] UK Office for National Statistics

Customer deposits held in authorised banks, building societies and credit unions are protected by the Financial Services Compensation Scheme (FSCS) up to GBP 85,000. In March 2025, the Bank of England set out a proposal to raise the deposit protection limit to GBP 110,000 to take into account inflation since the limit was last changed[10]. The limit applies to the total eligible deposits of each person, per authorised firm. Non-preferred deposits (not guaranteed, not retail and SME) rank on par with other senior unsecured creditors.

UK has record of supporting financial stability

The Bank of England is the UK's lender of last resort and has demonstrated the ability and willingness to support the liquidity of banks. Support mechanisms include the Discount Window Facility (DWF), the Indexed Long-Term Repo (ILTR), the Contingency Term Repo Facility (CTRF), and the Alternative Liquidity Facility (ALF). The central bank has taken effective action to support financial stability in periods of stress, such as the Gilt market turmoil of 2022.

Supervision is undertaken by the Prudential Regulation Authority, PRA, part of the Bank of England, and the Financial Conduct Authority. The Financial Services and Markets Act 2023 introduced new secondary objectives for the two regulators to facilitate the international competitiveness of the UK economy and its growth in the medium to long term. The PRA regulates around 1,500 banks, building societies, credit unions, insurers and major investment firms.

Somewhat concentrated and competitive market

The assets of the five largest banks as a share of total commercial banking assets was 60%[11], indicating moderate banking concentration. In terms of mortgage lending, the six largest lenders (Lloyds Banking Group, Nationwide Building Society, NatWest Group, Santander UK, Barclays and HSBC Bank) account for over 70% of the total. The sector is characterised by two UK-focused retail and commercial banks, two large UK mortgage lenders, and two large globally active banks. The rest of the market is comprised of numerous smaller players, including a cluster of challenger and digital banks, fintechs and foreign banks/branches.

Consolidation has increased

Competition is high due to ring-fencing rules and the regulators' stance on encouraging healthy competition to improve the quality of services.

Consolidation has increased recently among medium-sized and challenger banks. This includes Nationwide Building Society's acquisition of Virgin Money, Coventry Building Society's acquisition of The Co-operative Bank, Barclays' acquisition of Tesco's retail banking business, and NatWest's acquisition of retail banking assets and liabilities of Sainsbury's Bank.

Since the global financial crisis, major UK banks have restructured and de-risked and are generating more consistent and solid earnings. With a focus on digitalisation, high-street banks continue to downsize branch networks and improve efficiency.

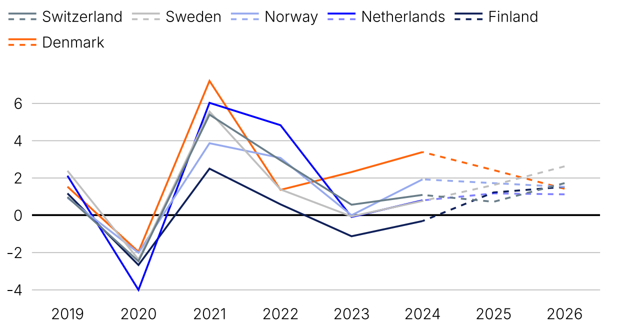
Asset quality is supported by the large share of residential mortgages in banks' loan portfolios. Residential mortgages comprise about 70% of the UK loan market[12] and have a low credit loss history. Since 2014, the Bank of England has had measures in place to limit the share of lending to borrowers with loan-to-income ratios at or above 4.5x which has helped to contain risks. The proportion of total loan balances with arrears, relative to all outstanding mortgage balances was 1.3% as of Q4 2024, the highest level since Q4 2016.[13]

UK banks and building societies are not large holders of UK Gilts (about 5% of total). The largest investor groups are overseas investors, the Bank of England's Asset Purchase Facility, insurance companies, pension funds[14] and hedge funds.

[10] If taken forward, the new limit would apply from 1 December 2025.
[11] World Bank, 2021.
[12] Bank of England sectoral analysis of M4 lending, excluding lending to other financial corporations.
[13] Bank of England, Mortgage lenders and administrators statistics, Q4 2024
[14] HM Treasury debt management report

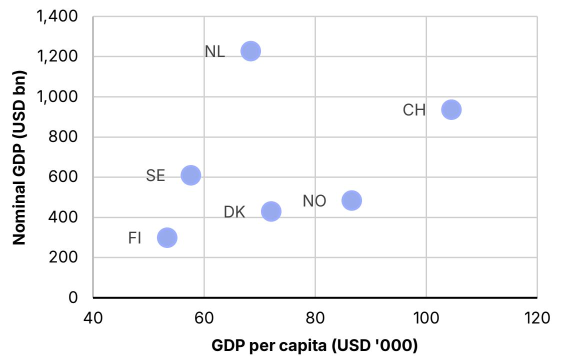
Appendix I – Peer charts: Very Supportive Low operating environments

Figure 1: Real GDP growth (%), historical



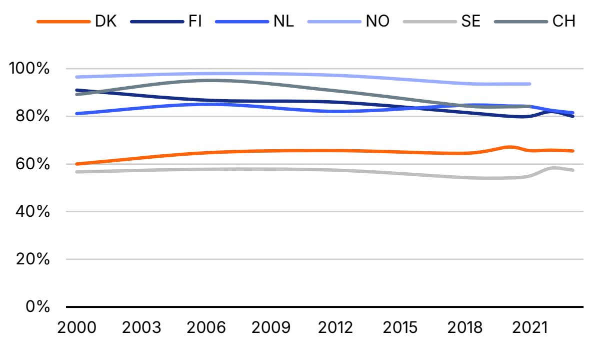
Source: Macrobond, Scope Ratings' forecasts

Figure 2: Nominal GDP and GDP per capita (2024)



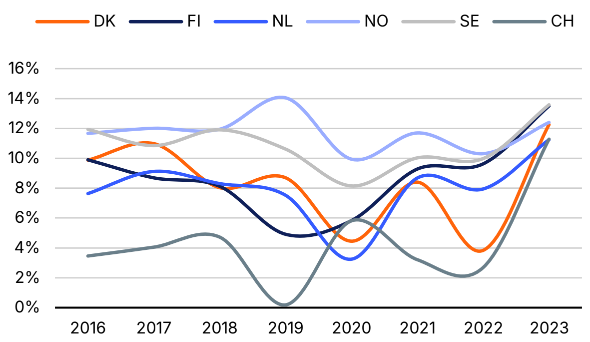
Source: ECB for EU countries, IMF, Scope Ratings

Figure 3: Bank concentration (top 5 banks)



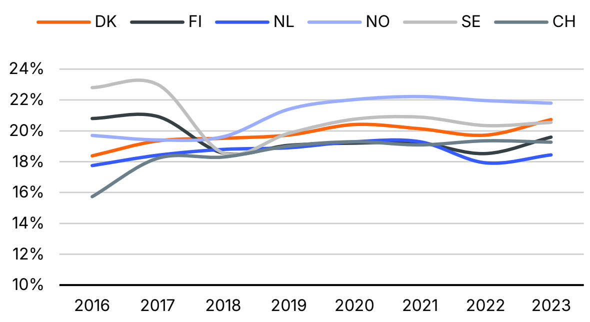
Source: ECB for EU countries, IMF, Scope Ratings

Figure 4: Return on average equity



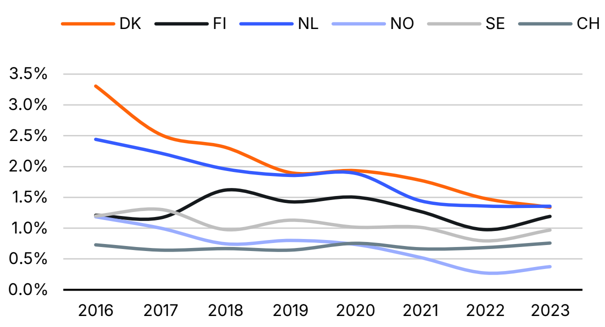
Source: ECB for EU countries, IMF, Scope Ratings

Figure 5: Total capital ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

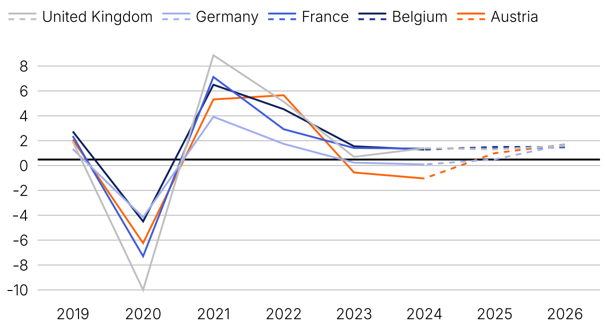
Figure 6: Gross NPL ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

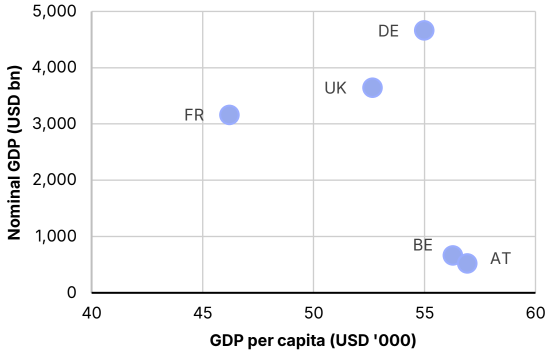
Appendix II – Peer charts: Supportive High operating environments

Figure 1: Real GDP growth (%), historical



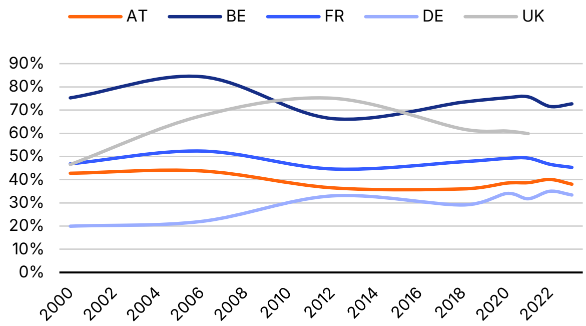
Source: Macrobond, Scope Ratings' forecasts

Figure 2: Nominal GDP and GDP per capita (2024)



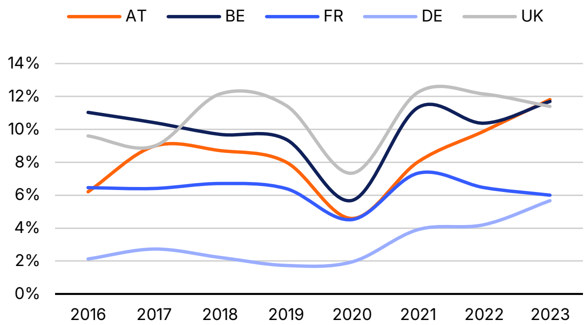
Source: ECB for EU countries, IMF, Scope Ratings

Figure 3: Bank concentration (top 5 banks)



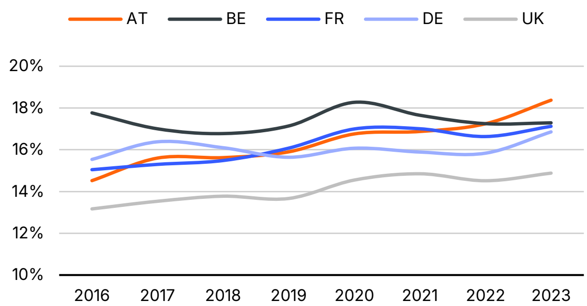
Source: ECB for EU countries, IMF, Scope Ratings

Figure 4: Return on average equity



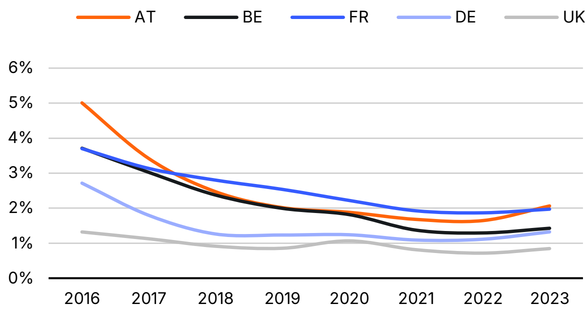
Source: ECB for EU countries, IMF, Scope Ratings

Figure 5: Total capital ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

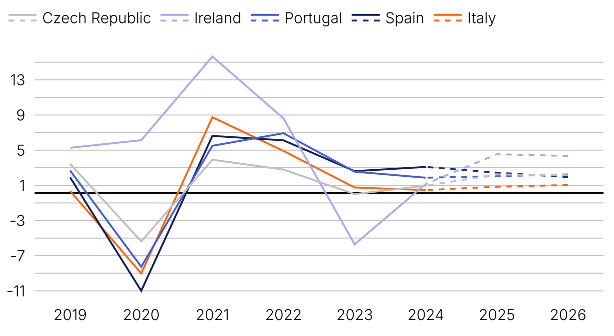
Figure 6: Gross NPL ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

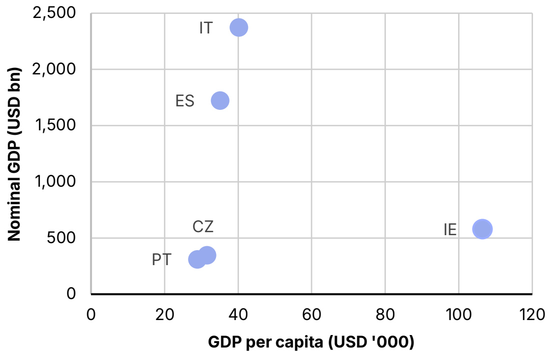
Appendix III – Peer charts: Supportive Low operating environments

Figure 1: Real GDP growth (%), historical



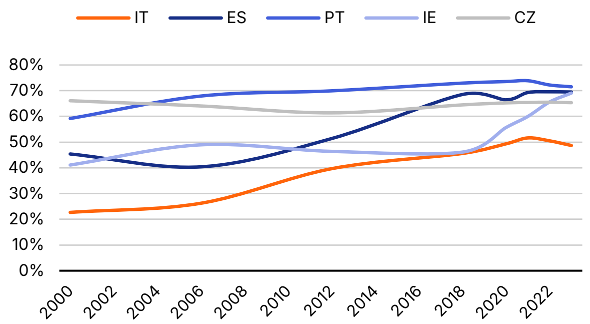
Source: Macrobond, Scope Ratings' forecasts

Figure 2: Nominal GDP and GDP per capita (2024)



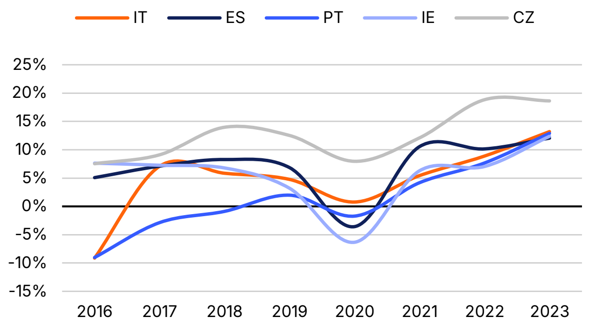
Source: ECB for EU countries, IMF, Scope Ratings

Figure 3: Bank concentration (top 5 banks)



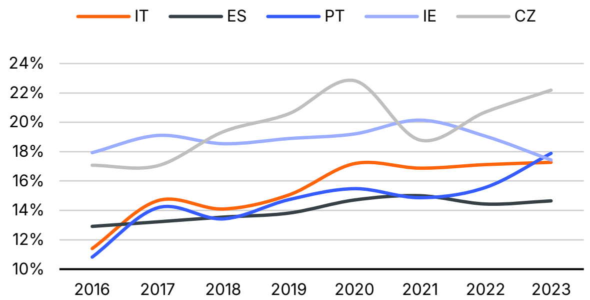
Source: ECB for EU countries, IMF, Scope Ratings

Figure 4: Return on average equity



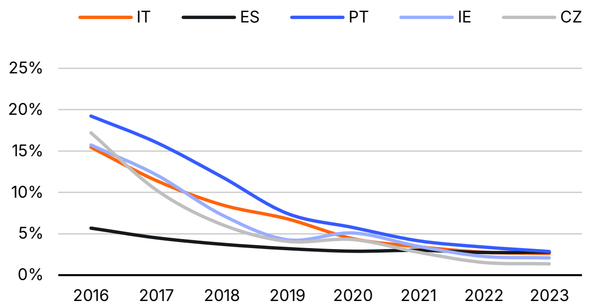
Source: ECB for EU countries, IMF, Scope Ratings

Figure 5: Total capital ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

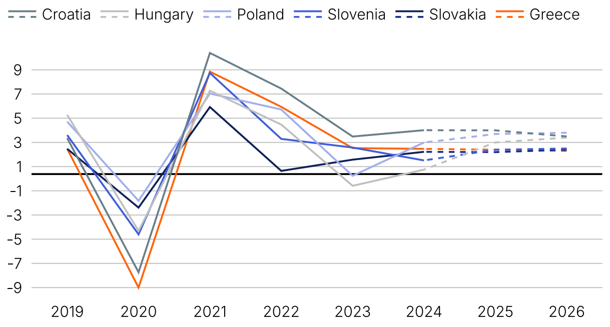
Figure 6: Gross NPL ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

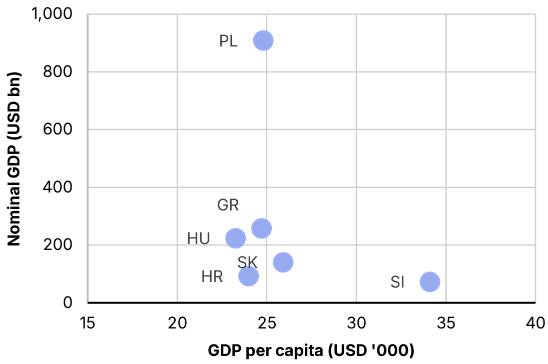
Appendix IV – Peer charts: Moderately Supportive High operating environments

Figure 1: Real GDP growth (%), historical



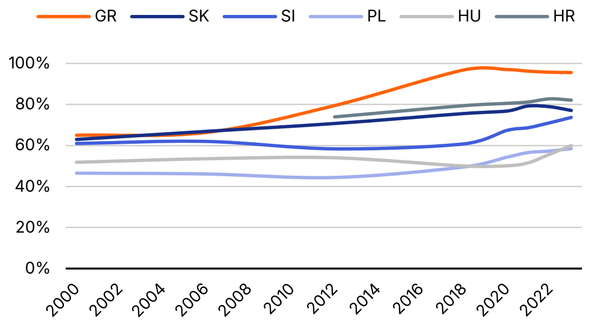
Source: Macrobond, Scope Ratings' forecasts

Figure 2: Nominal GDP and GDP per capita (2024)



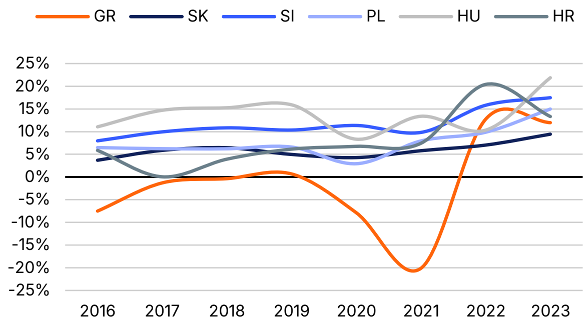
Source: ECB for EU countries, IMF, Scope Ratings

Figure 3: Bank concentration (top 5 banks)



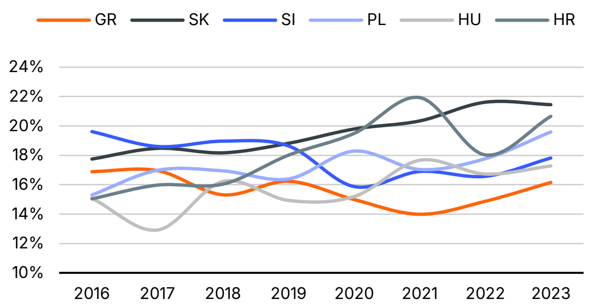
Source: ECB for EU countries, IMF, Scope Ratings

Figure 4: Return on average equity



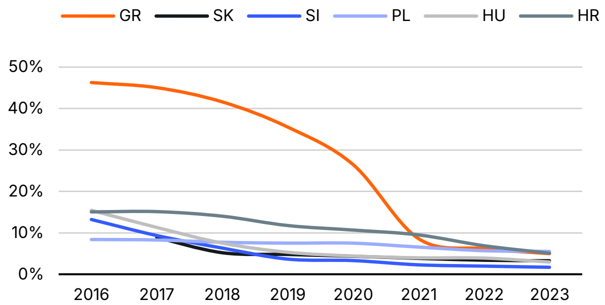
Source: ECB for EU countries, IMF, Scope Ratings

Figure 5: Total capital ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

Figure 6: Gross NPL ratio – peer comparison



Source: ECB for EU countries, IMF, Scope Ratings

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Applied methodologies

Financial Institutions Rating Methodology

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