

Benelux outlook report

Third quarter of 2024



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The objective of Benelux quarterly report is to provide a comprehensive and summarized overview of the main indicators of the country's banking sector, as well as the macroeconomic situation at the end of each quarter.

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1. International overview

Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderating inflation supporting real income growth. Labour market pressures continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.

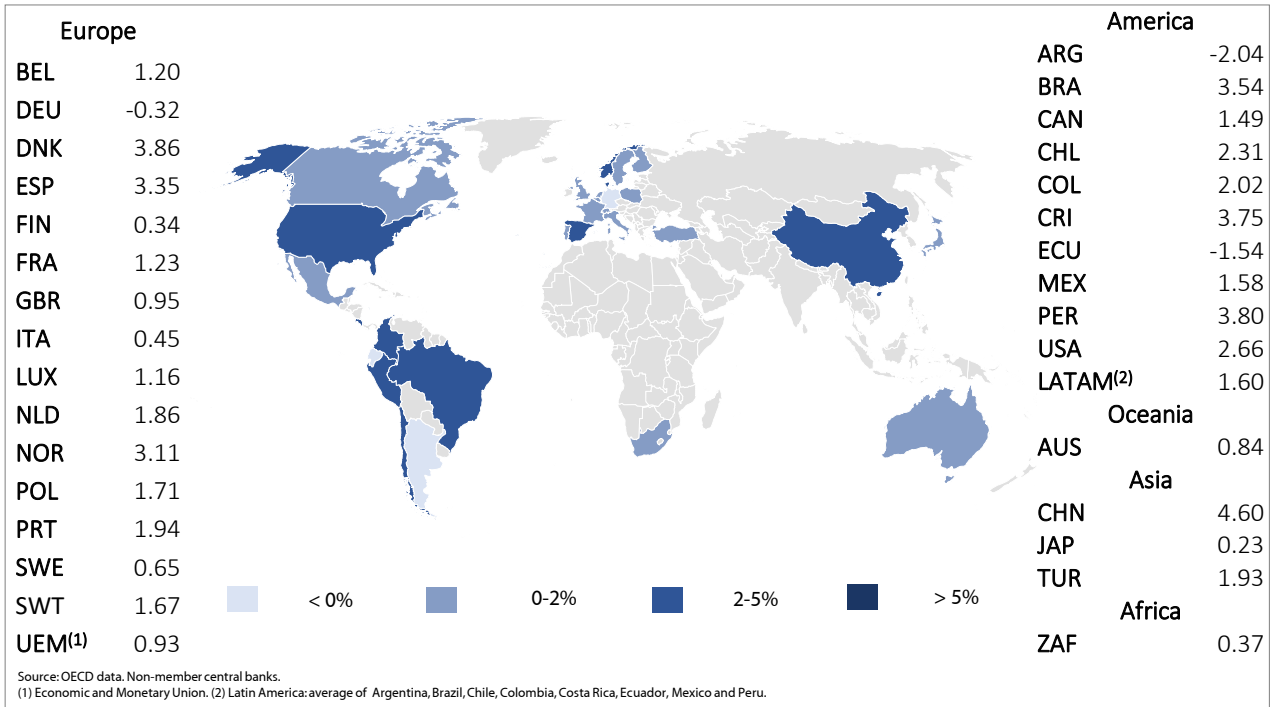
Macroeconomic outlook

- ▶ In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to 3Q23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- ▶ In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- ▶ In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in 3Q23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to 3Q23.
- ▶ In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to 3Q23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to 3Q23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in 3Q23. Unemployment worsened significantly by 4.62 p.p. compared to 3Q23.
- ▶ According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August, but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- ▶ The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

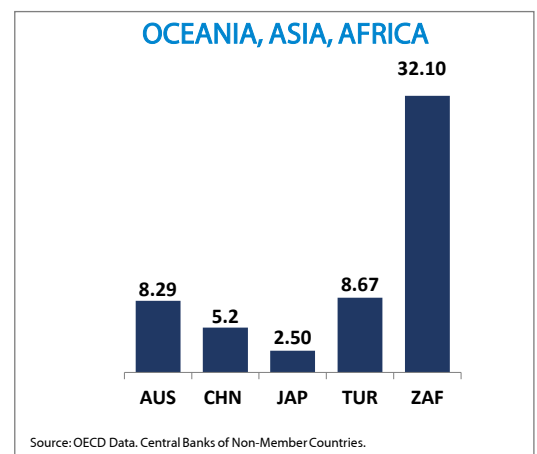
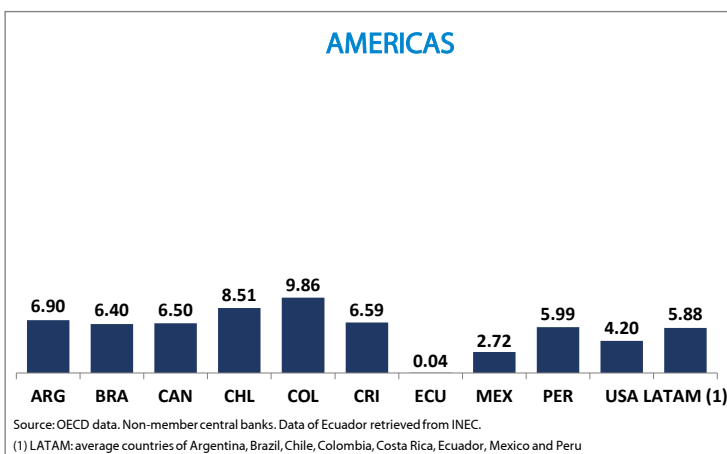
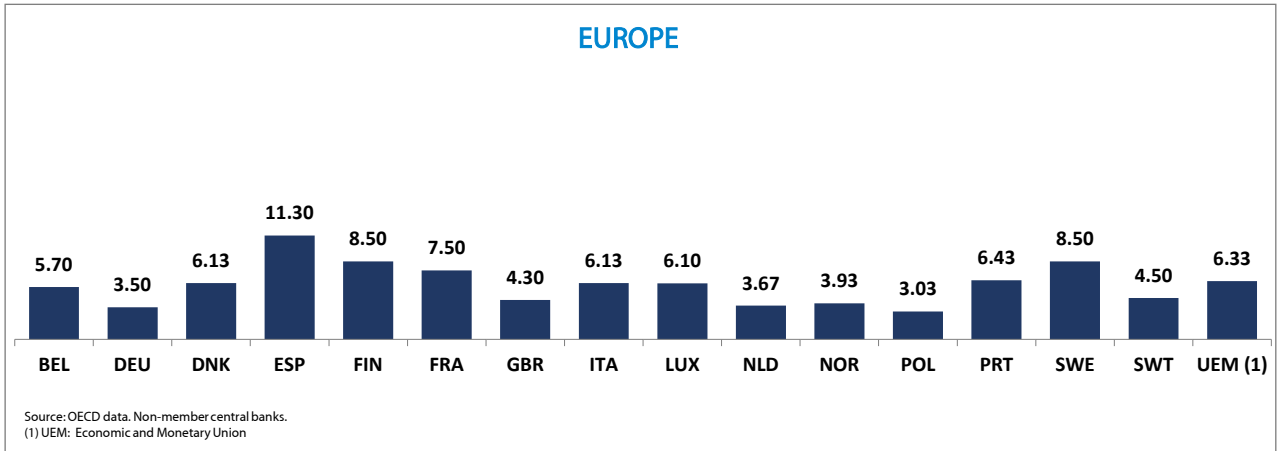
Other indicators and key risks

- ▶ The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- ▶ OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- ▶ The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

GDP (% , year-on-year growth)

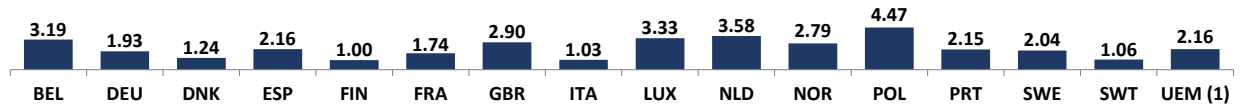


Unemployment rate (%)



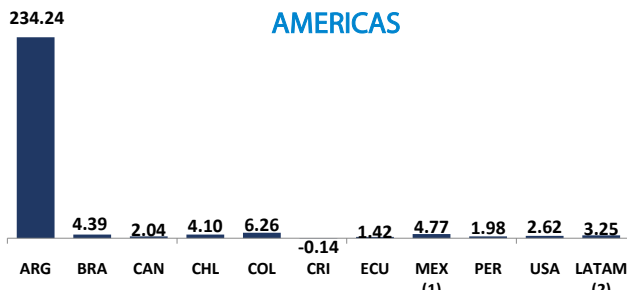
Inflation rate (%)

EUROPE



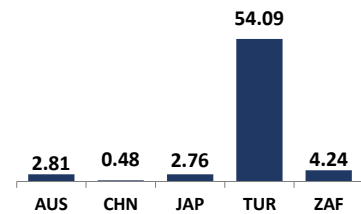
Source: OECD Data, Central Banks of Non-Member Countries.
(1) Monetary and Economic Union

AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.
(1) Data from 2Q24. 3Q24 data not available.
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries

Global Ratings and Exchange Rates

LONG-TERM RATES 3Q24

	MOODY'S	S&P	Fitch
EUROPE			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA-	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
AFRICA			
ZAF	Ba2	BB-	BB-
OCEANIA			
AUS	Aaa	AAA	AAA
ASIA			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
AMERICAS			
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q24 ▼ Decreased from 2Q24

Source: Investing

EXCHANGE RATES 3Q24 (\$¹)

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing, OECD projections, December 2024.

(1) The base currency used is the U.S. dollar against each local currency quoted

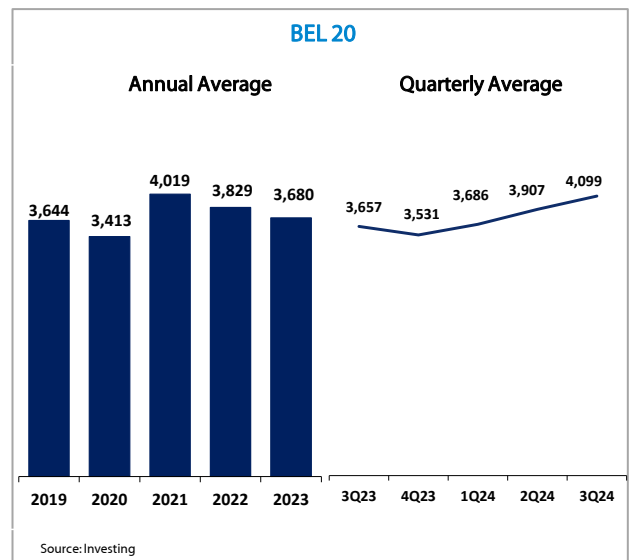
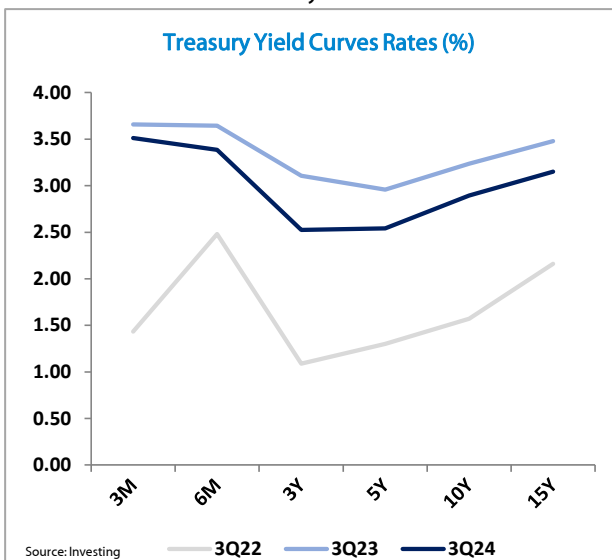
2. Macroeconomic view: Belgium

In 3Q24, the Belgian economy grew thanks to strong household consumption and exports, despite challenges in investment and inflation. Unemployment accelerated. Y-o-Y and Q-o-Q Delta is positive. Inflation dropped to 3.19%. Moderate growth is expected, driven by domestic demand and trade recovery.

Main Macroeconomic Indicators (%)									
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	0.59	0.62	0.77	0.91	1.20	0.29	0.61	0.91	1.23
DOMESTIC DEMAND	0.52	-0.55	-0.54	0.70	1.39	0.69	0.87	1.27	1.89
HOUSEHOLD CONSUMPTION	-0.24	0.74	1.06	1.31	2.59	1.28	2.83	1.32	1.28
PUBLIC CONSUMPTION	2.98	1.38	2.22	5.22	3.52	-1.70	0.54	4.55	2.25
CAPITAL FORMATION	6.00	-2.70	-0.12	1.40	-2.07	-3.47	-8.07	2.98	2.74
EXTERNAL DEMAND									
EXPORTS	-10.17	-10.21	-5.71	-4.06	-3.53	0.53	6.64	-3.50	0.28
IMPORTS	-10.07	-11.25	-7.04	-4.24	-3.28	0.96	6.79	-3.03	1.10
INFLATION									
CPI	3.53	0.82	2.71	3.49	3.19	-0.30	-0.34	4.33	2.94
LABOUR MARKET									
UNEMPLOYMENT RATE	5.37	5.53	5.70	5.57	5.70	0.13	0.33	5.63	5.91
EMPLOYMENT ⁽¹⁾	0.63	0.49	0.39	0.23	0.20	-0.03	-0.43	0.24	0.42

(1) The employment variable represents the year-on-year change in employment growth.
Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December 11th, 2024. The series for the other quarters have also been updated to the database as of December 11th, 2024, to gain consistency. Projections OECD December 2024.

- ▶ Belgium's GDP is projected to grow by 0.91% and 1.23% in 2024 and 2025, respectively, driven by domestic demand recovery and improving exports. However, inflationary pressures and weak investment may challenge economic stability. Regarding domestic demand, it increased amounting to 1.39%, supported by household consumption growth of 2.59%, reflecting resilience in consumer spending despite economic uncertainties. Public consumption growth fell by 1.70 p.p. compared to the prior quarter, while capital formation growth dropped significantly by 3.47p.p. continuing its downward trend.
- ▶ On the external front, exports growth increased slightly by 0.53 p.p. compared to the prior quarter, while imports growth rose by 0.96 p.p. in the same comparison, resulting in a positive but modest contribution from net exports to growth.
- ▶ Inflation eased to 3.19%, 0.30 p.p. lower than the previous quarter, driven by reduced energy price pressures, though core inflation remains a concern.
- ▶ The labour market remained stable, with unemployment steady at 5.70%, and employment growth dropped -0,03pp Q-o-Q and -0,43pp Y-o-Y. Moderate growth is expected, supported by consumption and external trade recovery.



Macroeconomic view: Netherlands

The Dutch economy expanded by 1.86% in 3Q 2024, driven by robust household consumption, public consumption and capital formation. Despite modest improvements in investment activity, inflationary pressures and moderate labour market developments continue to shape the economic landscape.

Main Macroeconomic Indicators (%)

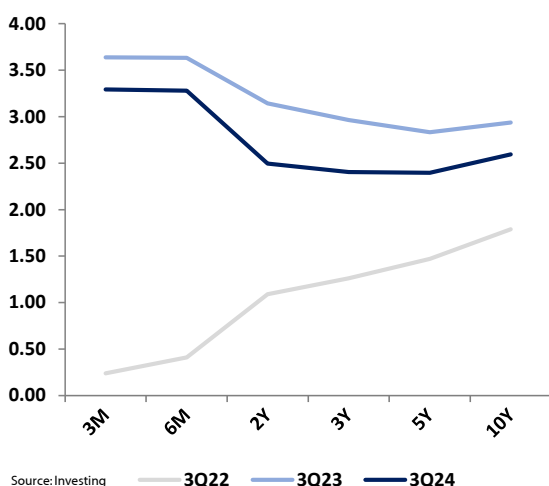
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	-0.90	-0.58	-0.69	0.59	1.86	1.27	2.76	0.90	1.64
DOMESTIC DEMAND	-1.99	-1.99	-0.15	-0.23	2.12	2.35	4.11	0.94	1.74
HOUSEHOLD CONSUMPTION	-1.01	0.41	0.25	0.00	1.65	1.65	2.66	0.76	2.00
PUBLIC CONSUMPTION	3.49	4.16	3.19	3.87	2.88	-0.99	-0.61	3.00	1.11
CAPITAL FORMATION	0.16	-3.28	-4.53	-2.27	0.17	2.44	0.01	-1.15	1.02
EXTERNAL DEMAND									
EXPORTS	-2.85	-1.91	-3.44	-0.22	2.80	3.02	5.65	0.04	2.11
IMPORTS	-4.38	-3.58	-3.20	-1.37	3.11	4.48	7.49	-0.01	2.33
INFLATION									
CPI	2.57	0.81	3.02	2.89	3.58	0.69	1.01	3.20	2.66
LABOUR MARKET									
UNEMPLOYMENT RATE	3.63	3.57	3.63	3.63	3.67	0.04	0.04	3.67	3.78
EMPLOYMENT ⁽¹⁾	1.42	1.13	0.77	1.16	0.96	-0.20	-0.46	0.63	0.17

(1) The employment variable represents the year-on-year change in employment growth.

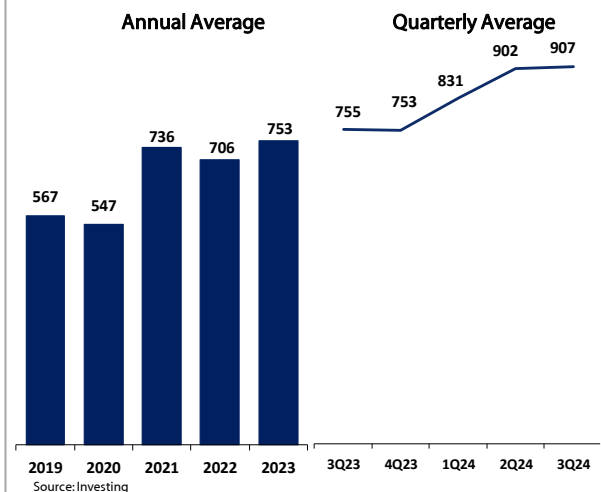
Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December, 2024. The series for the other quarters have also been updated to the database as of December 23rd, 2024, to gain consistency. Projections OECD December 2024.

- ▶ The Dutch economy grew by 1.86% year-on-year in 3Q24, driven by robust domestic demand and strong export performance. Household consumption increased by 2.12%, rising by 2.35 p.p. from the previous quarter, while public consumption rose by 1.65%. Similarly, capital formation growth increased by 2.44 p.p., reflecting strong investment. Regarding external trade exports, it grew by 2.80%, what represents an increase of 3.02 p.p. compared to 2Q24. Imports, on the other hand, grew by 3.11%, marking an increase of 4.48 p.p. over the same period.
- ▶ Inflation climbed to 3.58%, 0.69 p.p. higher than in 2Q24, driven by rising labour costs and consumer demand. This persistent inflation presents challenges to purchasing power and overall economic stability.
- ▶ The labour market remains tight, with unemployment stable at 3.67%, though employment growth slowed to 0.96%, highlighting limited new job creation compared to the previous quarter.
- ▶ Projections for 2024 and 2025 suggest slower GDP growth at 0.90% and 1.64%, respectively, as inflation is expected to moderate, and employment gains are likely to stabilize further in a challenging global environment.

Treasury Yield Curves Rates (%)



AEX



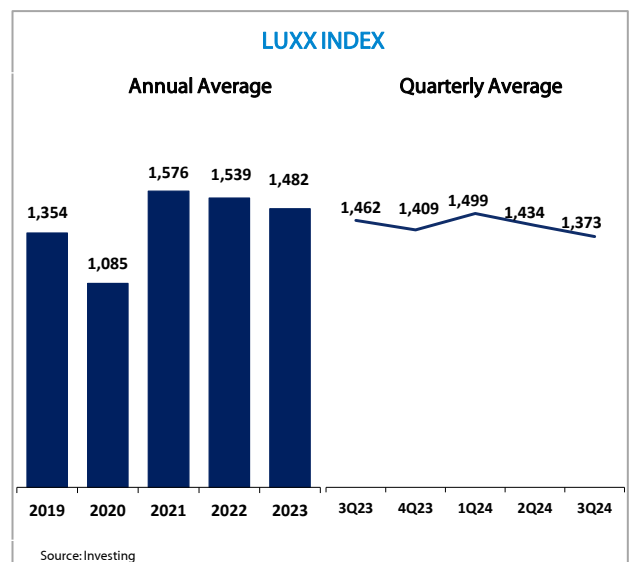
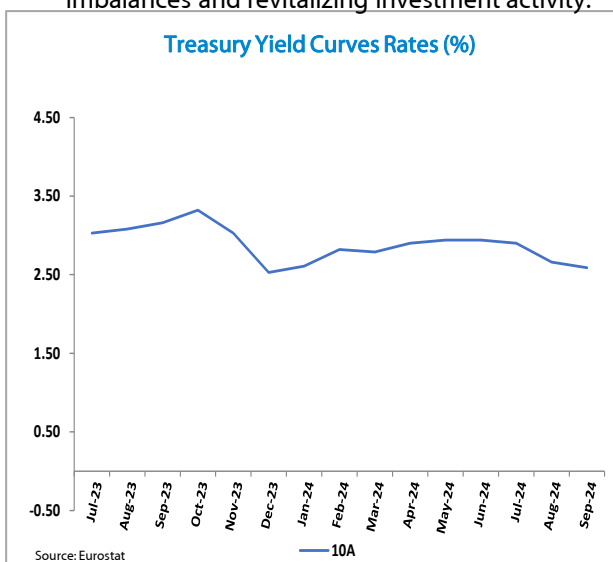
Macroeconomic view: Luxembourg

In 3Q24, Luxembourg's exports decreased and public consumption increased. Regarding the labour market, employment grew by 0.92%. Medium-term growth looks promising but hinges on tackling fiscal imbalances and boosting investment activity.

Main Macroeconomic Indicators (%)									
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	-1.98	-0.53	-0.72	-0.11	1.16	1.27	3.14	1.17	2.27
DOMESTIC DEMAND	0.66	2.49	-1.23	-0.34	2.98	3.32	2.32	0.34	2.38
HOUSEHOLD CONSUMPTION	2.28	4.65	-0.04	0.33	3.80	3.47	1.52	1.86	2.75
PUBLIC CONSUMPTION	2.65	3.67	4.83	5.10	4.56	-0.54	1.91	4.66	2.41
CAPITAL FORMATION	-2.87	-7.05	-10.52	-6.73	-3.84	2.89	-0.97	-5.27	1.80
EXTERNAL DEMAND									
EXPORTS	-0.51	-0.24	-0.79	0.11	-0.46	-0.57	0.05	0.58	2.75
IMPORTS	0.76	1.07	-1.08	-0.09	0.01	0.10	-0.75	0.00	2.68
INFLATION									
CPI	4.01	3.23	3.25	2.40	1.67	-0.73	-2.34	2.30	2.37
LABOUR MARKET									
UNEMPLOYMENT RATE	5.33	5.70	5.90	5.97	6.10	0.13	0.77	5.76	6.03
EMPLOYMENT ⁽¹⁾	1.66	1.52	0.92	0.89	0.92	0.03	-0.74	0.86	1.47

(1) The employment variable represents the year-on-year change in employment growth.
Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December 11th, 2024. The series for the other quarters have also been updated to the database as of December 11th, 2024, to gain consistency. Projections OECD December 2024.

- ▶ Luxembourg's GDP is projected to grow by 1.17% and 2.27% in 2024 and 2025, respectively, driven by robust household consumption and improvements in external demand. However, challenges such as public deficit expansion and weakened investment activity may weigh on economic performance.
- ▶ Domestic demand grew by 2.98% in 3Q24, supported by household consumption growth of 3.80%, reflecting strong consumer spending. Public consumption growth decreased compared to 2Q24, but capital formation growth increased q-o-q but decreased y-o-y, signaling ongoing weaknesses in investment.
- ▶ On the external front, exports growth decreased by 0.57 p.p. compared to 2Q24, while imports growth increased more modestly at 0.10 p.p., has contributed negatively to net trade.
- ▶ Inflation stood at 1.67 %, down by 0.73 p.p. from previous quarter, easing pressures on purchasing power. However, public finances remain under strain due to expansive fiscal measures during inflationary crisis.
- ▶ The unemployment rate increased slightly to 6.10%, while employment remained almost flat at 0.92%. Luxembourg's medium-term growth outlook remains positive but contingent on addressing fiscal imbalances and revitalizing investment activity.



3. Banking sector: Belgium

The Belgian banking sector experimented an increase in total loans and deposits YoY growth rates. The cost to income ratio continued to improve both annually and quarterly. Regarding risk ratios, NPL ratio improved and coverage ratio worsened annually. LCR and CET1 worsened compared to 3Q23. Lastly, the ECB reduced the interest rates by 0.60 p.p. compared to 2Q24.

BUSINESS	BANKING SECTOR CONTEXT 3Q24 (%)						
	3Q23	4Q23	1Q24	2Q24	3Q24	Var p.p. 2Q24	Var p.p. 3Q23
TOTAL LOANS	-8.16	-9.26	-2.21	-4.36	-0.04	4.32	8.12
TOTAL DEPOSITS	-8.87	-10.81	-4.84	-6.30	-1.04	5.26	7.83
LTD RATIO	85.25	86.12	86.75	86.50	86.11	-0.39	0.86
EFFICIENCY							
COST TO INCOME RATIO	60.90	60.32	57.50	54.80	50.90	-3.90	-10.00
EU AVERAGE	54.68	55.64	54.61	53.23	52.60	-0.63	-2.08
RISK							
NPL RATIO	1.38	1.41	1.20	1.20	1.20	0.00	-0.18
EU AVERAGE	1.80	1.84	1.86	1.86	1.60	-0.26	-0.20
COVERAGE RATIO	47.10	47.07	46.30	46.60	45.70	-0.90	-1.40
EU AVERAGE	42.55	42.26	41.76	41.99	41.60	-0.39	-0.95
SOLVENCY							
CET 1	17.60	17.74	17.80	18.50	17.00	-1.50	-0.60
LEVERAGE RATIO	5.97	6.12	6.40	6.50	6.30	-0.20	0.33
LCR	184.82	185.46	177.07	187.00	184.40	-2.60	-0.42
ECB INTEREST RATE							
INTEREST RATE	4.50	4.50	4.50	4.25	3.65	-0.60	-0.85

Source: National Bank of Belgium (NBB).

- ▶ During the third quarter of 2024, the Belgian banking sector kept recording negative rates in total loans (-0.04%) and total deposits (-1.04%). The decreases experienced in the second quarter have reversed, showing both positive variations compared to 2Q24 and 3Q23. The LTD ratio recorded an increase of 0.86 p.p. compared to the third quarter of 2023, standing at 86.11%.
- ▶ Regarding the cost to income ratio, it improved by 3.90 p.p. compared to 2Q24 and 10.00 p.p. if compared to the third quarter of 2023. It stood at 50.90%, which was lower than the EU average (52.60%).
- ▶ The Belgian NPL ratio was 1.20%, same as the previous quarter and 0.18 p.p. lower than in 3Q23. It stood at a better rate than the EU average (1.60%), which improved compared to 2Q24. During the third quarter of 2024, the coverage ratio worsened quarterly, as well as compared to 3Q23. Again, the Belgian banking sector (45.70%) performed better than the EU average (41.60%).
- ▶ Liquidity coverage ratio (LCR) recorded a 2.60 p.p. decrease compared to the previous quarter and a 0.42 p.p. decrease compared to 3Q23, reaching 184.40%. Leverage ratio increased by 0.33 p.p. compared to 3Q23 and decreased by 0.20 p.p. quarterly. Finally, CET1 ratio stood at 17.00%, which implies a 0.60 p.p. decrease compared to 3Q23.
- ▶ In September 2024, the ECB decided to reduce interest rates from 4.25% to 3.65%. As the ECB affirmed, it was appropriate to moderate the monetary policy restrictions.

Banking sector: Netherlands

During 3Q24, the Dutch banking sector recorded an increase in total loans and deposits year-on-year growth rates. Efficiency worsened annually, while NPL improved YoY. In terms of solvency, CET1 and LCR decreased compared to 3Q23. Lastly, the ECB reduced the interest rates by 0.60 p.p. during the third quarter.

BANKING SECTOR CONTEXT 3Q24 (%)

BUSINESS	3Q23	4Q23	1Q24	2Q24	3Q24	Var p.p. 2Q24	Var p.p. 3Q23
TOTAL LOANS	0.31	n.a.	3.99	4.36	4.93	0.57	4.62
TOTAL DEPOSITS	-0.14	0.21	1.89	3.08	3.55	0.47	3.69
LTD RATIO	101.50	102.18	103.09	102.50	102.85	0.35	1.35
EFFICIENCY							
COST TO INCOME RATIO	50.88	53.95	52.64	51.20	51.30	0.10	0.42
EU AVERAGE	54.68	55.64	54.61	53.23	52.60	-0.63	-2.08
RISK							
NPL RATIO	1.37	1.40	1.40	1.40	1.30	-0.10	-0.07
EU AVERAGE	1.80	1.84	1.86	1.86	1.60	-0.26	-0.20
COVERAGE RATIO	24.77	26.19	26.30	26.50	25.80	-0.70	1.03
EU AVERAGE	42.55	42.26	41.76	41.99	41.60	-0.39	-0.95
SOLVENCY							
CET 1	16.00	15.88	15.50	15.30	15.80	0.50	-0.20
LEVERAGE RATIO	5.65	5.95	5.70	5.80	5.70	-0.10	0.05
LCR	153.99	157.79	146.70	150.90	148.80	-2.10	-5.19
ECB INTEREST RATE							
INTEREST RATE	4.50	4.50	4.50	4.25	3.65	-0.60	-0.85

Source: De Nederlandsche Bank (DNB).

- ▶ In the third quarter of 2024, total loans and deposits growth rates their upward trend which started in the first quarter of the year. During this quarter, they reached 4.93% and 3.55%, respectively. Regarding LTD ratio, this increased 1.35 p.p. compared to 3Q23 and 0.35 p.p. in comparison with 2Q24.
- ▶ Efficiency worsened quarterly and annually, reaching the Dutch sector a 51.30%, 1.30 p.p. better than the EU average (52.60%). The Dutch cost to income ratio, worsened by 0.42 p.p. when compared to 3Q23 and 0.10 p.p. when compared to 2Q24.
- ▶ The NPL ratio remained well below the EU average (1.30% vs 1.60%), recording a slight decrease of 0.07 p.p. when compared to the same quarter of the previous year, and of 0.10 p.p. in comparison with the previous quarter. Regarding the coverage ratio, it decreased by 0.70 p.p. compared to the previous quarter and increased 1.03 p.p. compared to 3Q23, coming at 25.80%. The EU average (41.60%) worsened by 0.39 p.p. compared to the previous quarter, a level considerably higher than the one from Dutch banking sector.
- ▶ Regarding solvency, the LCR from the banking sector reached a 148.80%, which meant a 2.10 p.p. decrease compared to the previous quarter, and a 5.19 p.p. drop compared to 3Q23. CET1 ratio decreased YoY, recording a 15.80%, while leverage ratio improved by 0.05 p.p., reaching 5.70%.
- ▶ In September 2024, the ECB decided to reduce interest rates, from 4.25% to 3.65%. As the ECB affirmed, it was appropriate to moderate the monetary policy restrictions.

Banking sector: Luxembourg

The Luxembourgian banking sector experienced an annual increase in total loans and a decrease in total deposits YoY growth rate. Cost to income ratio improved annually, while NPL and coverage ratio worsened. All solvency indicators improved compared to 3Q23. Lastly, the ECB reduced the interest rates by 0.60 p.p. in 3Q24.

BANKING SECTOR CONTEXT 3Q24 (%)							
BUSINESS	3Q23	4Q23	1Q24	2Q24	3Q24	Var p.p. 2Q24	Var p.p. 3Q23
TOTAL LOANS	-13.91	-6.42	-1.40	-5.21	-6.25	-1.04	7.66
TOTAL DEPOSITS	-0.56	0.90	-4.81	0.60	-0.73	-1.33	-0.17
LTD RATIO	90.30	93.43	92.44	86.72	85.28	-1.44	-5.02
EFFICIENCY							
COST TO INCOME RATIO	60.32	58.62	58.50	50.40	50.80	0.40	-9.52
EU AVERAGE	54.68	55.64	54.61	53.23	52.60	-0.63	-2.08
RISK							
NPL RATIO	1.22	1.41	1.50	1.70	1.60	-0.10	0.38
EU AVERAGE	1.80	1.84	1.86	1.86	1.60	-0.26	-0.20
COVERAGE RATIO	41.24	37.58	34.20	35.20	33.80	-1.40	-7.44
EU AVERAGE	42.55	42.26	41.76	41.99	41.60	-0.39	-0.95
SOLVENCY							
CET 1	21.79	21.70	22.60	22.50	22.00	-0.50	0.21
LEVERAGE RATIO	7.00	7.07	7.50	7.40	7.30	-0.10	0.30
LCR	141.52	153.49	153.80	153.60	160.60	7.00	19.08
ECB INTEREST RATE							
INTEREST RATE	4.50	4.50	4.50	4.25	3.65	-0.60	-0.85

Source: Statistics Portal G.D. Luxembourg.

- ▶ The banking sector in Luxembourg reflected an increase in total loans YoY growth rate by 7.66 p.p., whereas total deposits decreased slightly YoY by 0.17 p.p., compared to 3Q23. In 3Q24, the YoY growth rate from loans was negative (-6.25%), as well as deposits (-0.73%). The LTD ratio recorded a decrease of 5.02 p.p. compared to the third quarter of 2023, standing at 85.28%.
- ▶ The cost to income ratio from the Luxembourgian banking sector was 50.80% in 3Q24, 1.80 p.p. better than the EU average, which reached 52.60%. Both improved annually, but national ratio worsened in comparison to 2Q24.
- ▶ The NPL ratio improved compared to the previous quarter by 0.10 p.p., reaching 1.60%, the same rate as the EU average. The coverage ratio reached 33.80%, which meant a decrease of 7.44 p.p. with respect to 3Q23 and of 1.40 p.p. compared to 2Q24. The EU average stood at higher levels, recording a 41.60%.
- ▶ In terms of solvency, CET1 and leverage ratio registered quarterly decreases (-0.50 p.p. and -0.10 p.p., respectively), recording 22.00% and 7.30% in 3Q24. By contrast, LCR improved their results from 2Q24, by 7.00 p.p., and by 19.08 compared to 3Q23.
- ▶ In September 2024, the ECB decided to reduce interest rates, from 4.25% to 3.65%. As the ECB affirmed, it was appropriate to moderate the monetary policy restrictions.

4. Glossary

- ▶ **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **COVERAGE RATIO:** It is a ratio that informs us about the protection that financial entities have against the unpaid loans of their clients. It is represented as the total provisions that the entity has over the total doubtful loans.
- ▶ **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period of time.
- ▶ **EFFICIENCY RATIO:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio.
- ▶ **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LCR (Liquidity Coverage Ratio):** this ratio measures a bank's liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- ▶ **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **NON-PERFORMING LOANS (NPL) RATIO:** The non-performing loan (NPL) ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity.
- ▶ **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- ▶ **OECD:** Organization for Economic Cooperation and Development.
- ▶ **p.p.:** percentage points.
- ▶ **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- ▶ **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.

5. Appendix

MACROECONOMIC OVERVIEW

- ▶ Banque Centrale du Luxembourg:
<http://www.bcl.lu/en/index.html>
- ▶ De Nederlandsche Bank:
<https://www.dnb.nl/>
- ▶ European Central Bank:
<http://www.ecb.int/ecb/html/index.es.html>
- ▶ Investing
<https://es.investing.com/>
- ▶ National Bank of Belgium:
<https://www.nbb.be/en>
- ▶ National Bank of Belgium Online Statistics:
<https://stat.nbb.be/Index.aspx>
- ▶ Organisation for Economic Co-operation and Development, OECD:
<http://www.oecd.org/home/>
- ▶ Statistics Netherlands (CBS):
<https://www.cbs.nl/>
- ▶ Statistics Portal Grand Duchy of Luxembourg:
<https://statistiques.public.lu/en/index.html>
- ▶ Yahoo Finance:
<https://www.yahoo.com/author/yahoo-finance/>

ACRONYMS

- | | | | | |
|-----------------|-----------------------|--------------------|----------------------|--------------------------------|
| ▶ DEU - Germany | ▶ LUX - Luxembourg | ▶ TUR - Turkey | ▶ ECU - Ecuador | ▶ ZAF - South Africa |
| ▶ BEL - Belgium | ▶ NLD - Netherlands | ▶ ARG - Argentina | ▶ MEX - Mexico | ▶ UEM- European Monetary Union |
| ▶ DIN - Denmark | ▶ NOR - Norway | ▶ BRA - Brazil | ▶ PER - Peru | |
| ▶ ESP - Spain | ▶ POL - Poland | ▶ CAN - Canada | ▶ USA- United States | |
| ▶ FIN - Finland | ▶ PRT - Portugal | ▶ CHL - Chile | ▶ AUS - Australia | |
| ▶ FRA - France | ▶ GBR- United Kingdom | ▶ COL - Colombia | ▶ CHN - China | |
| ▶ ITA - Italy | ▶ SUE - Sweden | ▶ CRI - Costa Rica | ▶ JAP - Japan | |

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