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Review article

BANKING ACTIVITY - PARTICIPATION IN THE FINANCIAL SYSTEM OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract

The bank as a joint stock company can be established only after obtaining permission from the Governor of the National Bank of the Republic of North Macedonia. Issues related to the establishment, organization, structuring and operation of the bank are addressed in detail in the Law on Banks. In addition to treatment from a theoretical and normative point of view, the author through the methods of analysis, synthesis and statistics processed the official data of the National Bank mainly over the past six years. The study provides data that recently banks kept the dominant position in the financial system and their role of the most significant segment for preserving financial stability, despite the decrease of their share in the total assets of the financial system, at the expense of the increased share of pension funds. Such a position of banks has been maintained despite the obstacles, difficulties and crises, including the most severe and unpredictable crisis of recent years such as the Covid-19 Pandemic.

Keywords: bank, financial system, Republic of North Macedonia, crisis, Covid-19 Pandemic.

1. Introduction

Bank is a legal entity, licensed by the Governor of the National Bank of the Republic of North Macedonia, established in accordance with the provisions of the Law on Banks, the principal activity of which is to accept deposits and other repayable sources of funds from the public and to extend credits on its own behalf and for its own account[1]. The bank being a commercial entity, the activity it carries out is part of the commercial activities enumerated by the Law on Companies[2]. By entity is meant domestic and/or foreign legal entity and natural person while by banking activity is meant the financial activity that has to do with collecting deposits and approving credits on own behalf and for own account. The exercise of financial activities, although largely identified with banks and banking, they are in fact exercised by a range of financial institutions, from savings and credit organizations, insurance companies, investment funds, to commercial banks such as larger money centres[3]. Without such activities and institutions, it would be almost impossible to move funds from people who save to people who need or need productive investment opportunities[4]. Due to the large role that banks play in channelling funds to borrowers with productive investment opportunities, this financial activity is important to ensure that the financial system and economy function smoothly, efficiently and with sustainable

[1] Article 2 of the *Law on Banks*, Official Gazette of the Republic of North Macedonia, no. 67/07. *Law on Amending and Supplementing the Law on Banks*, Official Gazette of the Republic of North Macedonia, no. 90/09, 67/10, 26/13, 15/15, 153/15, 190/16, 07/19, 101/19, 122/21. *Decision of the Constitutional Court* of the Republic of North Macedonia, no. 228/2007, 182/2007, 229/2007, 118/2008, 42/2009, 43/2013, 247/2020.
[2] Article 4(1) of the *Law on Companies*, Official Gazette of the Republic of North Macedonia, no. 28/04. *Law on Amending and Supplementing the Law on Companies*, Official Gazette of the Republic of North Macedonia, no. 84/05, 25/07, 87/08, 42/10, 48/10, 24/11, 166/12, 70/13, 119/13, 187/13, 38/14, 41/14, 138 / 14, 88/15, 192/15, 06/16. 61/16, 64/18, 120/18. *Decision of the Constitutional Court* of the Republic of Northern Macedonia, no. 177/2005, 177/2008, 153/2008, 75/2010, 169/2010.
[3] Shalagh Heffernan, *Modern Banking*, Chichester: John Wiley & Sons Ltd, 2005, 1.
[4] Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets* (7th edition), Pearson, 2004, 8.

development.

The banking activity and the banking system in general have undergone many changes in recent decades: legal regulations, markets, goals and mission of banks, customer characteristics and the volume of banking business have changed. Despite the many changes, the foundation of banks has not changed. They work with customers to achieve the best possible relationships, in order to achieve common development and progress. The role of these reports for the economy is important, and the situation in the economy is clearly reflected in the activity of banks[5].

In the last few years, the development of the banking system in the Republic of North Macedonia has seen significant progress. However, the level of development affects the level of financial adjustment and is lower than other countries in the region and lags significantly behind EU countries. The banking sector, which has a dominant position in the financial system, consist of 13 banks,[6] 2 saving houses,[7] 242 exchange offices,[8] and 3 other financial institutions[9]. Such a dominant position is reflected in what the Macedonian banking sector maintained its stability, maintaining high solvency and liquidity despite the uncertainty with the various crises in the country and at European and global level.

2. Banking activity specifically over the years

The banking sector is crucial to the country's financial stability. Its assets constitute 82.5% of total Macedonian financial sector assets, and the activities of other financial system segments, except mandatory fully funded pension funds, are quite modest in scope. Some of the banks have equity units in other financial institutions (pension fund management, leasing, insurance, investment fund management companies), and at the same time are one of the main investment destinations (in the form of deposits) for some of the non-bank financial institutions (primarily brokerage firms, insurance companies and investment funds). Thus, the business model used by domestic commercial banks is very simple and traditional - they accept deposits from the domestic private sector and lend them to the non-financial sector. In the time period studied below, the ownership connection does not exert direct financial implications for domestic banks, but rather carries reputational risks, while the spill over risk from other institutional segments to the banking sector is insignificant, given the modest amounts of claims and liabilities on/to financial institutions.

In 2015, despite all the challenges, the banking system preserved its stability thus proving the resilience to shocks from domestic and external environment. Amid solid economic growth in the country, the intermediation role between depositors and credit users continued to strengthen, but at a slower pace. The most significant factors for the stability and resilience of the banking sector to internal and external shocks are its stable and high liquidity and solvency. The liquidity of the banking system remains satisfactory, despite the certain decrease in the indicators in 2015. Typically, banks maintain a high amount of liquid assets, which at the level of the total banking system, represent about one third of the total assets, covering about 55% of short-term liabilities, i.e., more than 80% of the contractual liabilities with residual maturity up to 30 days[10].

In 2015, the capital adequacy ratio was almost twice the legally prescribed minimum and equalled 15.5%. Profit is the main source of strengthening the banks' capital position, which underlines the importance of profitability, not only for the stability of the banking system, but also for increasing the banks' activities. In 2015, again there was an improvement in the profitability of the banking system relative to the previous year, mainly due to larger decrease in interest expenses, compared to the interest income, with the cost-efficiency

[5] Miroslav Gregurek, Neven Vidaković, *Bankarsko poslovanje*, Zagreb, 2011, xi, xiii.
[6] https://www.nbrm.mk/banki.nspx [14.01.2022].
[7] https://www.nbrm.mk/stedilnici.nspx [14.01.2022].
[8] https://www.nbrm.mk/content/Supervizija_ovl_men_01_22.pdf [14.01.2022].
[9] Clearing House, Deposit Insurance Fund and Macedonian Stock Exchange, https://www.nbrm.mk/ostanati_finansisk_i_institutcii.nspx [14.01.2022].
[10] *Financial Stability Report in the Republic of Macedonia in 2015*, Skopje: National Bank of the Republic of North Macedonia, 2016, 62.

of the banking system being also improved[11]. In 2015, the banks' claims on the government registered annual increase, mostly based on placements in short-term treasury bills. On the other hand, the share of banks on the primary market of government securities continues registering downward trend, for the account of the larger participation of institutional investors on this market, especially pension funds. In 2015, the bank placements with the government increased by 4.7 billion (or 13.9%), which is due almost entirely to increased investments in treasury bills. Such developments resulted in increase in the share of banks' claims on the government total assets at the level of 9.1%, which is lower compared to the historical peak (since 2013), but still significantly higher than during both pre-crisis and crisis period (5.8% in 2007 and by 3.7% in 2008)[12].

Change in assets in percentage Change in liabilities in percentage

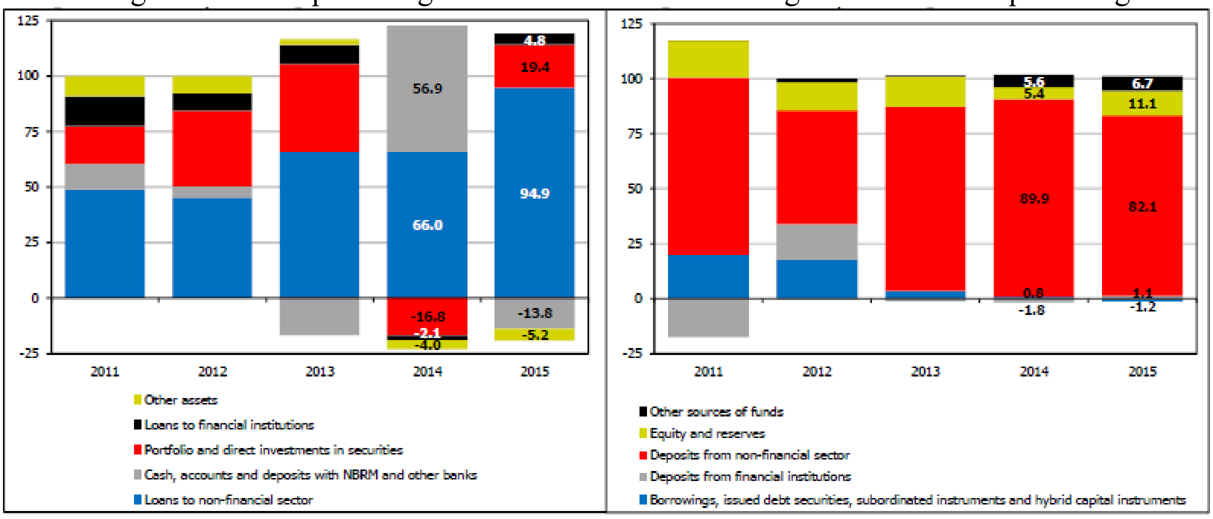

Chart 1 – Structure of annual changes in assets (left) and liabilities (right)

Source: National Bank of the Republic of North Macedonia, based on the data submitted by banks

The banks' credit channel registers slight impairment compared to the previous years. Namely, the materialization of the credit risk in the banks' portfolios participate with only 7% in the change in the credits of the banking system in 2015 (compared to 15% in 2014).

In 2016, and especially in the first half of the year, the activities of the domestic banking system were strongly influenced by the unstable political situation in the country, accompanied by speculation on the stability of the Denar exchange rate, the domestic banks and the deposits. In the second quarter of 2016, the deposit withdrawal from the banking system was a real stress test for the volume adequacy of banks' liquid assets, which declined by more than 10% in just one quarter. However, the relatively high amount of previously accumulated liquid assets of the banks, as well as the National Bank instruments to create liquidity, contributed to successful overcoming of this crisis episode in the domestic banking system. These developments also highlighted the importance of the political stability to the maintenance of the financial stability in the country[13].

The solvency of the banking system, expressed through the capital adequacy ratio at the end of 2016 is high (it equals 15.2%, versus 15.5%, as of 31 December 2015), and allows enough room to absorb the possible unexpected losses for banks. The amendments to the Law on Banks, adopted in October 2016, which started to apply from March 2017, mean significant modernization of the regulatory framework, by introducing the new rules of the Basel Committee and the European regulations on the so-called capital buffers, whose fulfilment will further strengthen the solvency of banks. The amendments to the capital adequacy regulations

[11] Ibid, 63.

[12] Ibid, 66-67.

[13] *Financial Stability Report in the Republic of Macedonia in 2016*, Skopje: National Bank of the Republic of North Macedonia, 2017, 61.

from December 2016, which increased the significance, but also strengthened the quality of the most important component of the own funds - the Tier 1 capital, are also in this direction[14].

In millions of Denars In percentage of total loans

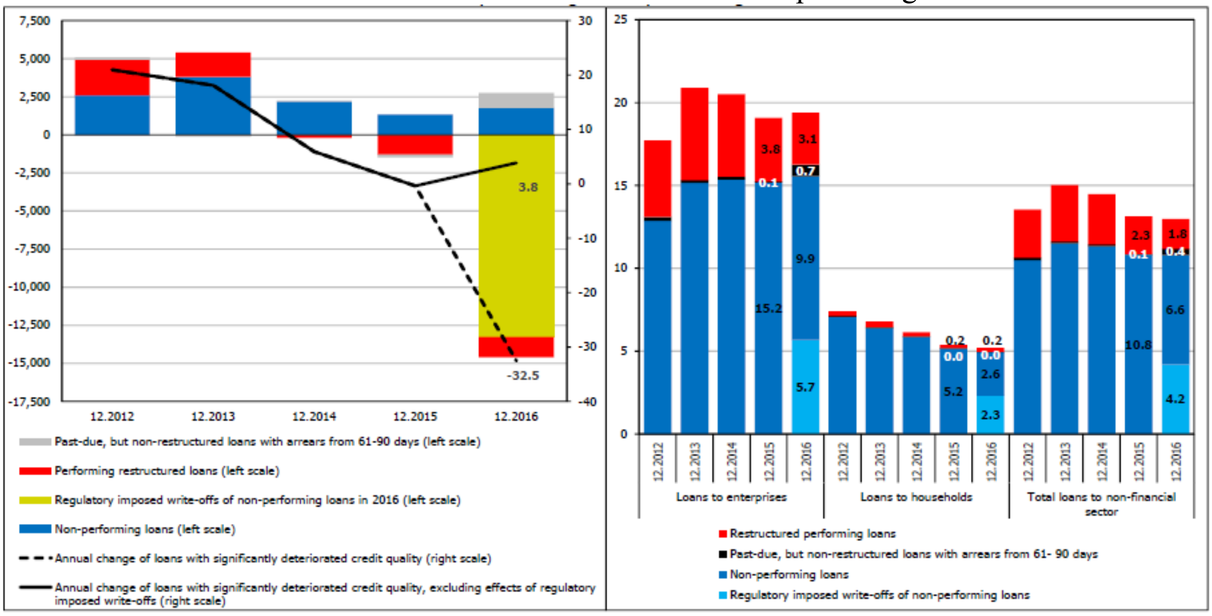

Chart 2 – Loans to non-financial entities with significantly deteriorated credit quality, annual change (left) and share in total loans to non-financial entities (right)

Source: National Bank of the Republic of North Macedonia, based on the data submitted by banks

Volatility in the domestic environment and the turbulence on the deposit market had gradual spill over effects on banks' credit activity. Loan movements were largely determined by the amendment to the existing regulation by the National Bank that required from banks to transfer to the off-balance sheet records all claims that have been fully booked for more than two years. Given that the banks were obliged to perform the "first write-offs" by 30 June 2016, the effects of these amendments to the regulation were the strongest in the second quarter of the year, and by the end of the year, there is a gradual depletion of the effects of regulatory change. On this basis, in 2016, there was a write-off of loans in the amount of Denar 13,262 million or 4.8% of the loan portfolio at the beginning of the year. In 2016, loans to non-financial entities recorded an annual growth of just 1.2%, which is significantly weaker performance compared with the previous year (9.7%)[15].

Despite the reduced risks, in 2017, the banking system operations were surrounded by uncertainty, especially pronounced in the first half of the year. The uncertain domestic environment influenced the perceptions of economic agents who shied away from investment, as well as on the dynamics of the banks' assets that increased by 3.9% in 2017 (growth of 5% in 2016). The slower annual growth of assets of the banking system mostly results from the slower movement of the non-financial sector deposits, as the main source of financing the activities of domestic banks, which stalled in the first half of 2017, but recovered in the second half. In 2017, banks managed to maintain a satisfactory pace of lending activity. In 2017, there was a certain increase in non-performing loans mostly to several larger clients in the corporate loan portfolio. Non-performing loans to households, primarily consumer loans, increased on an annual basis, though moderately, indicating partial materialization of risks in this segment of the loan portfolio. Furthermore, the percentage of impairment of non-performing loans is relatively high and their default, if any, would not deteriorate the bank solvency. On the other hand, in 2017, performing loans did not register unfavourable movements, and therefore there is no

[14] Ibid, 62.
[15] Ibid, 64.

ground for expectations for significant growth of non-performing loans in 2018[16].
The annual growth of loans to the non-financial sector somewhat accelerated in 2017. The acceleration was solely due to the faster growth of lending to nonfinancial companies, although household lending continued to grow at a solid pace and contributed the most to total credit growth (with almost three quarters). Domestic non-financial sector loans to GDP ratio still dwells below its long-term trend129 (by 5.2 percentage points). Household lending has registered relatively high and stable growth (about 10% a year) in the last 5-6 years, prompted by several factors, both on the supply and on the demand side of these loans. Moreover, in 2017, total non-performing loans of the banking system increased by 2%, mainly due to the faster growth of non-performing loans to non-financial companies, which, in turn, was due to the default of several major corporate clients of the banks. The growth of nonperforming household loans is slightly more moderate and derives from non-performing consumer loans, which is an indicator of partial materialization of risks arising from easing of consumer loan standards in the past. Performing loan categories with poor loan quality (performing restructured loans and 61-90 days past due loans) decreased in 2017[17].
The modest annual growth of liquid assets in 2017 (of 0.8%) decreased their share in total bank assets by around 1 percentage point (to 29.8% as of 31 December 2017). Coverage ratios of various categories of banks' liabilities with liquid assets mainly decreased in 2017, at a satisfactory level though, which allows for smooth operational liquidity management by banks. The increase in the maturity of banks' liquid assets deriving from the efforts for higher returns from their investment in long-term instruments, amid gradual increase in the share of demand deposits in the structure of banks' sources of financing, enhanced the gap between assets and liabilities according to their contractual residual maturity.

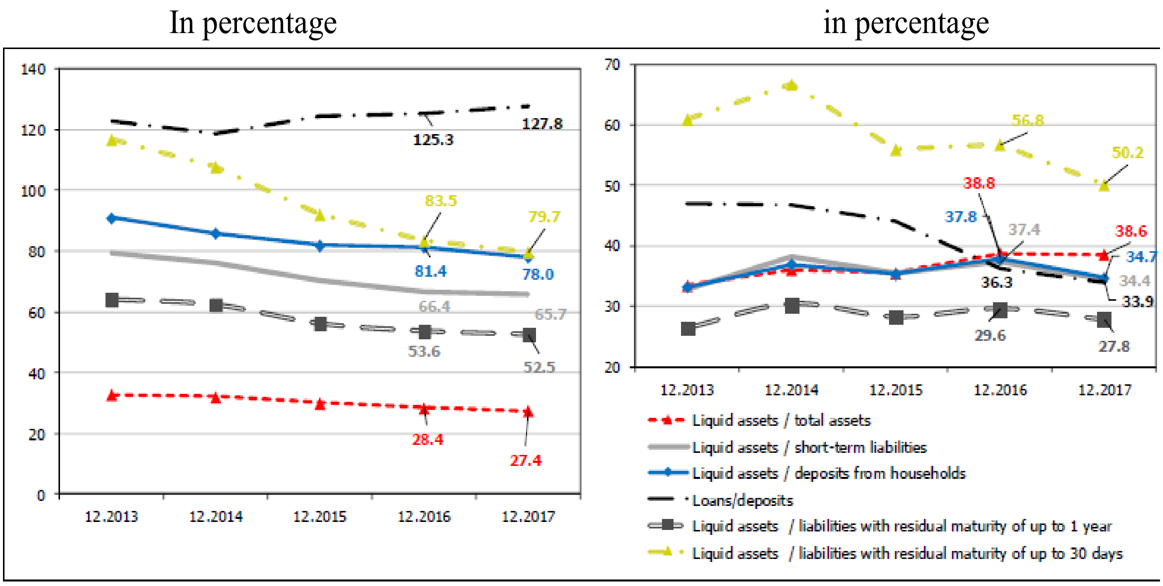

Chart 3 – Banking system liquidity ratios by currency – denar (left) and foreign currency (right)
Source: National Bank of the Republic of North Macedonia, based on the data submitted by banks

Solvency and capitalization ratios of the banking system somewhat increased in 2017, largely due to the faster growth of capital positions, mostly as a result of retained earnings and banks' issuance of new subordinated instruments. At the end of 2017, the capital adequacy ratio equalled 15.7%, which is by 0.5 percentage points higher compared to 31 December 2016. In 2017, there was no new issue of shares, which confirms the banks' predominant orientation towards internal capital formation (by retaining the profit in the equity funds) or

[16] *Financial Stability Report in the Republic of Macedonia in 2017*, Skopje: National Bank of the Republic of North Macedonia, 2018, 70.
[17] Ibid, 75.

issuing subordinated instruments[18].

Further to previous two years, in 2018, the profitability increased largely due to the lower costs of impairment, with contribution of the favourable macroeconomic environment and the persistent efforts of banks to reduce their non-performing loan portfolio. The growth of debt to the domestic banking sector accelerated in 2018, driven by the higher level of long-term loans and denar loans. Such movements affected the structure of the total debt to domestic banks in terms of growth of the shares in denar loans and long-term loans to 56.7% and 54.1%, respectively. The acceleration of the growth dynamics of total bank loans to the corporate sector in 2018, according to the National Bank’s Lending Survey, is due to the factors on the supply and demand side of loans, amid improved banks’ perceptions for the risk and increased needs of enterprises to finance investments in inventories and working capital and fixed assets[19].

In 2018, the banking system was operating in a stable domestic environment and a solid growth of economic activity, which in the absence of imbalances in the economy and stable expectations of economic agents, conditioned faster growth of banking activities and improvement of banks' risk profile. The growth of banks’ assets equalled 9% (3.9% in 2017), which is mainly due to the accelerated growth of deposit activity, mirrored through accelerated increase in lending activity and banks' liquid assets. Corporate lending intensified for the second year in a row, following the negative change in 2016 (an effect of the mandatory write-offs), which is of particular importance for further dynamization of the country's economic activity. Thus, in 2018, one-third of the credit growth was directed to the corporate sector. However, the increased scope of banks’ activities was not sufficient to support the growth of interest income, which declined for the second year in a row. The banks succeeded to compensate part of that decrease through downward corrections on the expenditures side, although that gap is getting more and more narrow. Most banks expect further increase in profitability in the following year, with this expectation being mostly based on higher income from fees and commissions. The maintenance of profitable operating of the banking sector itself is a significant challenge for the domestic banks, primarily in terms of their capacity for generating interest income. In this regard, it is important that banks continue to increment their loan portfolios, as the most profitable portfolio of banking activities, as well as development of new competitive products, with further adequate risk management and effective control of operating cost[20].

On 31 December 2018, the banking stability index, as well as other indicators included in its calculation have significant values compared to the preceding year, which indicates lower exposure to risks, i.e., improvement of the stability of the banking sector. The changes in the credit and liquidity risk indicators make the most significant contribution to the annual increase (improvement) of the banking stability index.

[18] Ibid, 80.

[19] *Financial Stability Report in the Republic of Macedonia in 2018*, Skopje: National Bank of the Republic of North Macedonia, 2019, 74.

[20] Ibid, 90.

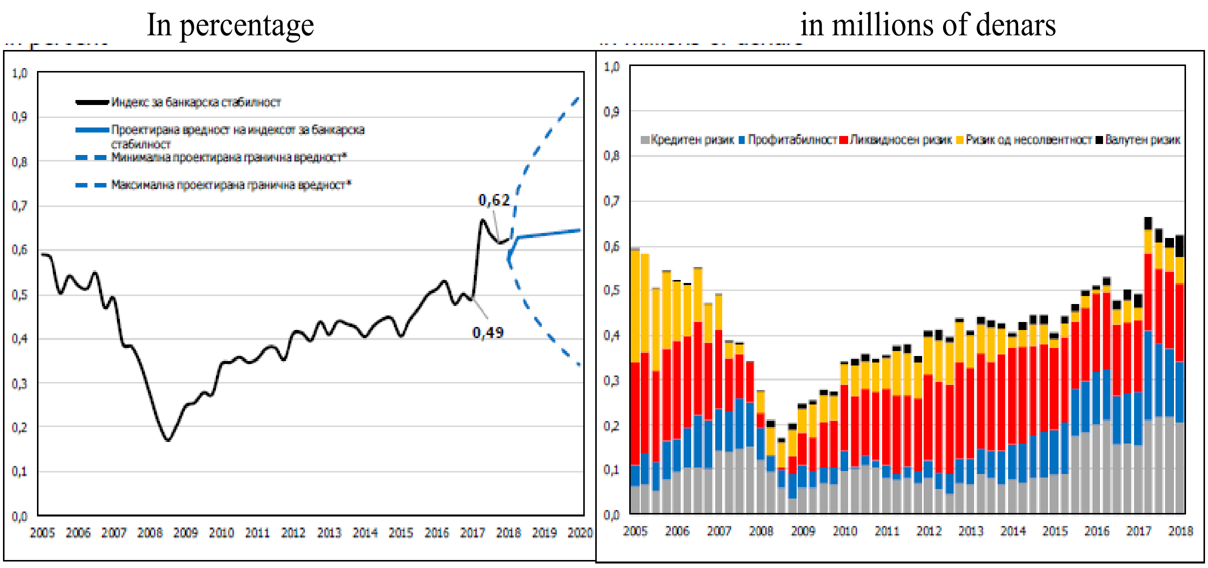

Chart 4 – Banking Stability Index (left) and contribution of individual index components (right)
Source: National Bank of the Republic of North Macedonia, based on the data submitted by banks

The satisfactory solvency and capitalization of the banking system was strengthened more in 2018. The growth of own funds arises from retained earnings, issues of common shares and new subordinated instruments issued by banks and is aimed at maintaining the volume of banks' activities in the case of enhanced capital requirements (in mid-2017 capital buffers have been introduced)[21].

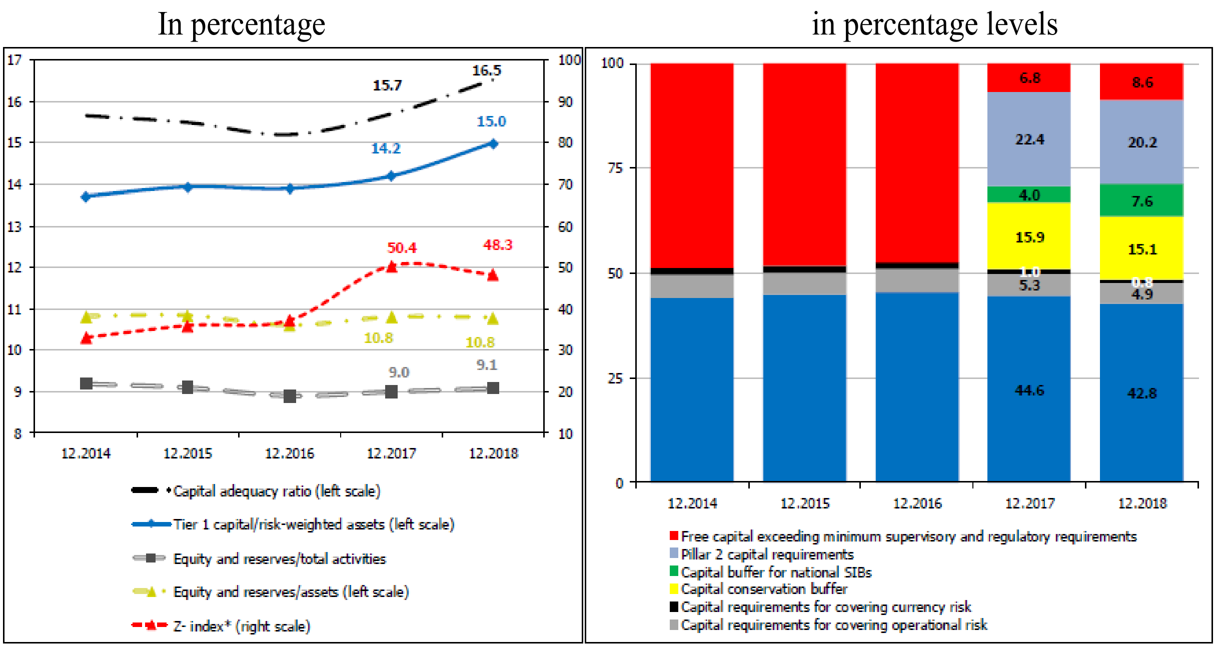

Chart 5 - Indicators of solvency and stability ratios of the banking system (left) and structure of own funds, by purpose
Source: National Bank of the Republic of North Macedonia, based on the data submitted by banks

In 2019, the banking system maintained its high capitalization and stable solvency position. The capital adequacy ratio moderately decreased by 0.2 percentage points (to a level of 16.3% as of 31.12.2019), which

[21] Ibid, 101-102.

was mostly a result of the growth of the activities of the banking system with the private sector (contribution of -0.8 percentage points) and the higher average risk weight of these activities (contribution of -0.7 percentage points). The application of the new accounting standard IFRS 9 did not cause major changes neither in the structure of loans, according to whether there are significant changes in the credit quality and the expectations for collection (i.e., the classification of loans in group 1, group 2 and group 3), nor in the percentage of impairment for the loans from the individual groups, given the introduction of the obligation for determining expected credit losses by banks. This points to the application of a somewhat more conservative approach when determining impairment, even before the application of IFRS 9[22].

In percentage

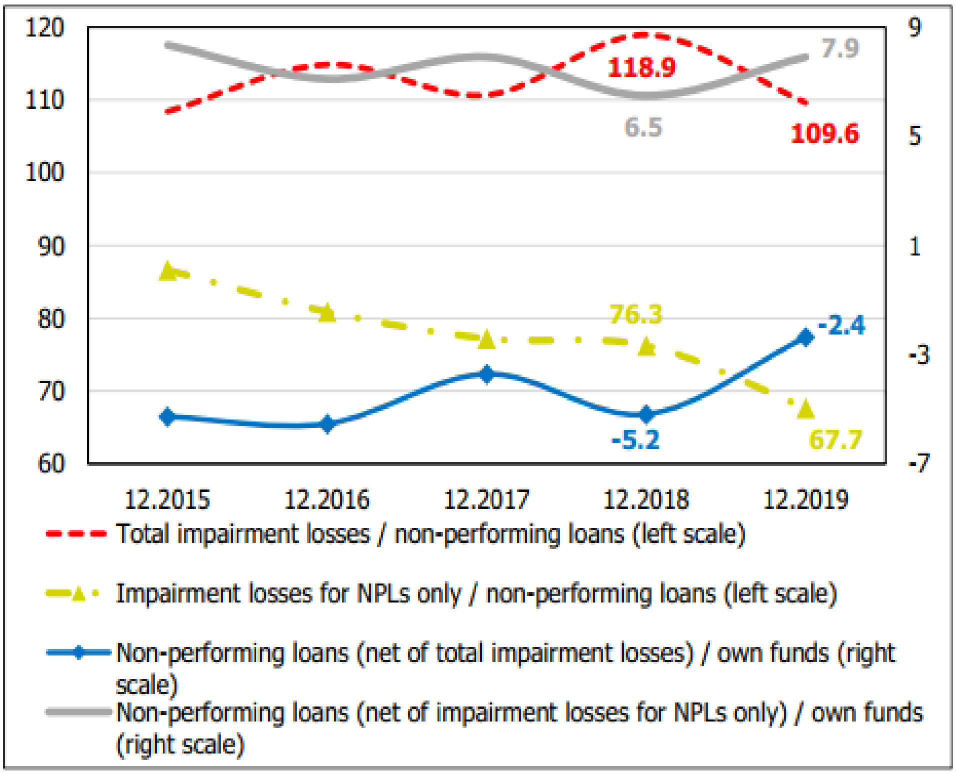

Chart 6 - Coverage of non-performing loans with impairment

Source: National Bank of the Republic of North Macedonia, based on thedata submitted by banks

Relatively high percentage of the corporate and household loans are secured by collateral. Namely, 98.2% of loans to non-financial companies, i.e., 74.9% of household loans are secured by collateral. In the structure of household loans there are also loans that, according to the records in the Credit Registry of the National Bank, are uncollateralized, but the contractual terms for these loans contain a so-called executive clause (residential facilities, business facilities, warehouses, production facilities and other real estate are taken into account), that allows banks a relatively fast forced collection of loans (among other things by way of blocking the funds on the payment account of the debtor). In the structure of collateralized loans, the share of loans secured by real estate160 is the highest[23]. The banks' indirect exposure to credit risk which arises from the presence of loans with currency component and loans with adjustable and variable interest rate is significant. In 2019, the share of loans with currency component in the total loans to the non-financial sector increased to a level of 42.3% (41.4% as of 31.12.2018).

[22] *Financial Stability Report in the Republic of Macedonia in 2019*, Skopje: National Bank of the Republic of North Macedonia, 2020, 112-113.
[23] Ibid, 117.

In percentage

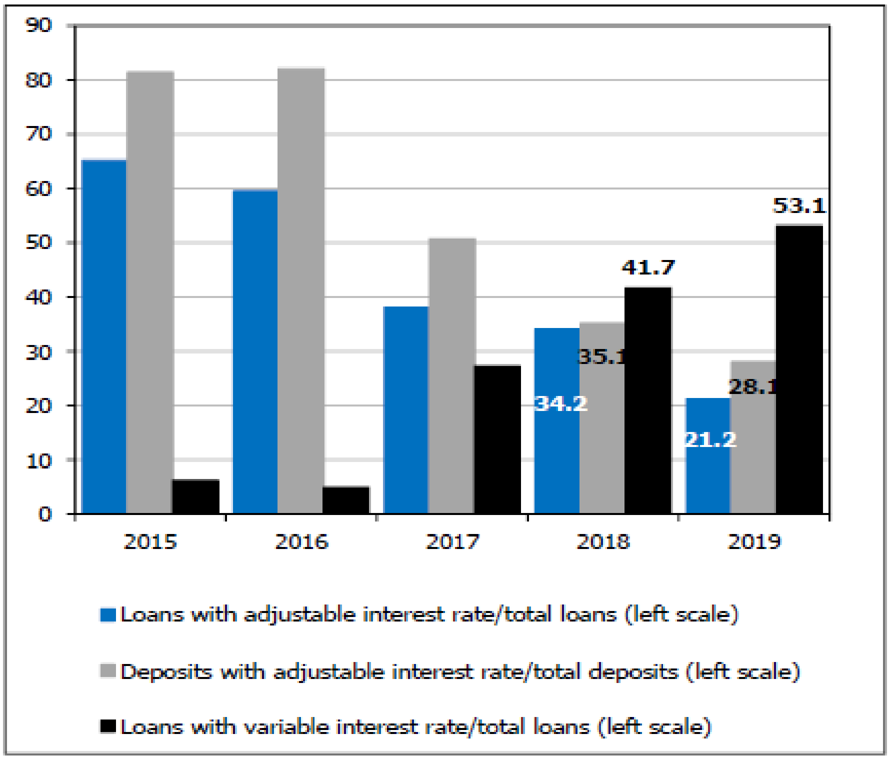

Chart 7 - Banking system exposure to indirect credit risk, from loans with variable and adjustable interest rate, and share of deposits with adjustable interest rate in total deposits

Source: National Bank of the Republic of North Macedonia, based on the data submitted by banks

Besides the prudent risk management, the financial intermediation carried out by banks is also one of the main functions necessary for the efficient reallocation of resources to the economy and, consequently, for maintaining the financial stability in the country. Despite the almost continuous growth of the shares of the activities of the banking system in GDP, however, compared to most of the analysed EU member countries, the level of financial intermediation in the Republic of North Macedonia is at a lower level. In contrast, the comparative analysis indicates that the Macedonian banking system has similar levels of financial intermediation to the banking systems from the countries of the region, which confirms the usual interdependence between the levels of economic development and of the financial intermediation in the individual countries[24].

In 2020, the banking sector faced numerous challenges, yet showed appropriate readiness to respond to the risks. In conditions of a strong health and economic crisis, the banking system maintained its stability and contributed to mitigating the consequences of the Covid-19 crisis, registering solid growth of activities. The Government as part of anti-crisis measures approved the Decree with legal force for the application of the Law on Banks during a state of emergency[25].

Such constant banking stability, on the one hand is due to the public confidence in the banking system, in conditions of strong capital and liquidity positions with banks, but on the other hand, arises from the rapid reaction of policy makers to release liquidity in the system and support the Macedonian economy. At the same time, measures for regulatory flexibility were taken in the area of credit risk management, which enabled banks to implement temporary delay in the loan repayment. This eased the financial burden of many borrowers in

[24] Ibid, 124-125.

[25] *Decree with legal force for the application of the Law on Banks during a state of emergency*, no. 44-3308/1, April 22, 2020.

the banking sector, so they could easily deal with the negative effects of the health and economic crisis[26]. Thus, the banks provided solid credit growth of 4.1%, supported by the further increase of deposits by 6.2%, but also by the monetary measures of the National Bank undertaken to release additional liquidity of the banks with the goal of providing support for the Macedonian economy. Influenced by the regulatory flexibility in the area of credit risk management, banks also enabled temporary deferral of loan collection, which in the second quarter of 2020 (when it was first approved) covered about 45% of the regular loan portfolio. In September 2020, during the prolongation of the virus pandemic, another, second offer to change the contractual terms of the loans followed, covering about 7% of the total regular loans. In that way, the financial burden of a significant part of the credit users of the banking sector was eased, in order to more easily deal with the negative effects of the health and economic crisis[27].

In percentage

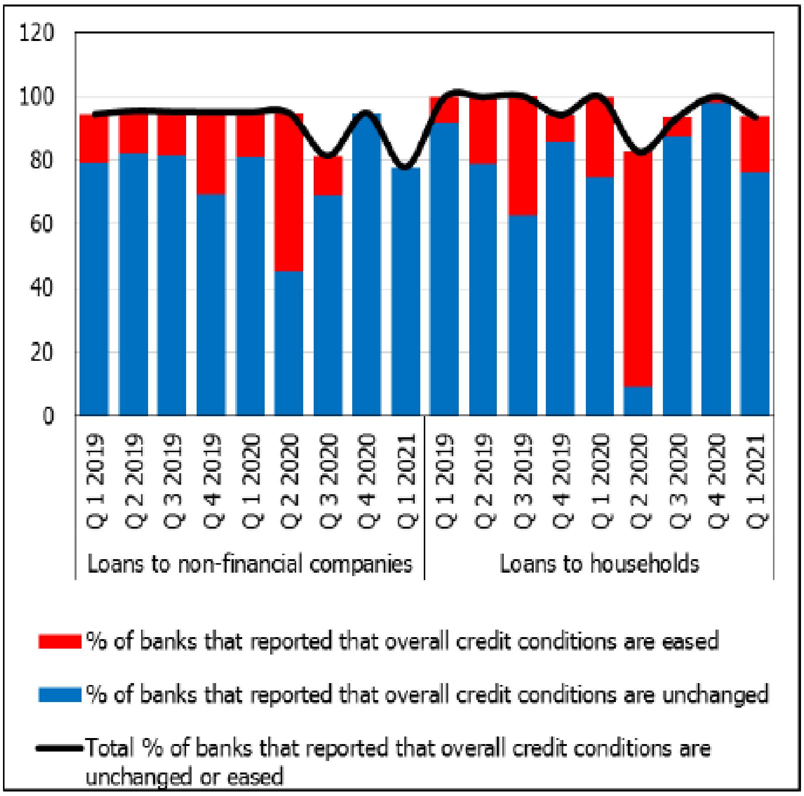

Chart 8 - Percentage of banks that reported that overall credit conditions are unchanged or eased
Source: National Bank of the Republic of North Macedonia, based on data from the conducted Bank Lending Surveys

The credit activity of banks was maintained even in the most acute phases of the pandemic. Total loans increased by 4.1% annually, which is a slowdown compared to the previous year (6.1%). However, if we exclude the effect from the bank in bankruptcy, the credit growth in 2020 is the same as in the previous year. The largest percentage of banks (over 80% of the corporate loans, i.e., over 90% of the household loans) eased or kept the credit terms98 (after a long period of easing, to the historically lowest levels), which is a significant positive signal and confirmation of the efficiency of the National Bank's undertaken measures. At the same time, the credit activity was appropriately supported on the deposits side, which registered solid, yet decelerated annual growth rates, confirming the public confidence in the stability of the banking system, even

[26] *Financial Stability Report in the Republic of Macedonia in 2020*, Skopje: National Bank of the Republic of North Macedonia, 2021, 61.
[27] *Risk Report on the Banking System of the Republic of North Macedonia in 2020*, Skopje: National Bank of the Republic of North Macedonia, 2021, 3.

amid external shocks, which as such, occur rarely[28].
The profitability indicators of the banking system remained solid. In 2020, the banks increased the profit mostly from non-recurring items, i.e., from the growth of the capital gain from sales of foreclosed collateral and income from collected written-off claims. Amid low and declining interest rates, the room for more significant growth of net interest income tightened. Thus, the net interest income which is the largest item in the banks' total revenues (with a share of 63%, moderately increased by only 0.4%, which led to further decline of the net interest margin, of 3.4% for 2019, to a level of 3.1% for 2020. On the other hand, the costs of impairment grew by 11%, due to increased vigilance of banks given the expected higher credit losses in conditions of pandemic. Uncertainty about the duration and intensity of coronavirus developments will undoubtedly affect the banks' profitability in the coming period[29].

3. Conclusion

The bank as a legal entity of financial character remains the main institution through which the financial system achieves its goals. Thus, banks occupy the largest part of the financial system and have the utmost importance for maintaining the stability of the overall financial system, as well as other institutional segments, which hold a significant portion of their assets in the form of deposits with banks. Stability of the financial system is determined by the stability of the banking sector as its dominant segment, where the savings of the non-financial sector are concentrated.
In general, the reason for the increased banking activities is the growth of the deposit base. The exposure of the Macedonian banking system to liquidity risk is minor, because of the traditionally high level of liquid assets available to banks. Relatively high percentage of the corporate and household loans are secured by collateral.
In the period 2015-2020, banks in the Republic of North Macedonia successfully met the challenge of complying with the new regulatory requirements that relate to the capital component of Basel 3. Thus, since March 2017, banks' have been required, besides capital adequacy ratio of 8%, also to calculate and maintain Tier 1 capital of 6% and Common Equity Tier 1 capital of 4.5%. In addition, all banks have been required to maintain a capital conservation buffer of 2.5% of the risk-weighted assets. In this period, i.e. the beginning of 2020 was marked by the COVID-19 Pandemic, which (will) inevitably have strong negative effects on the performances of the domestic economy, consequently on the liquidity and creditworthiness of companies and households and finally on the domestic banks. Banks, their clients and, generally, all economic agents and institutions in our country face numerous challenges from this crisis, whose consequences will depend on the duration and intensity of the negative effects of the global health, and consequently economic, crisis. At the moment, it is difficult to assess the intensity and duration of the negative effects for the banks, although the next adverse scenarios could be assumed with a certain amount of certainty.
Analyses argue that the banking system remained quite liquid with liquid assets of one third of total assets, i.e., about 60% of household deposits. The banking system solvency is also high, with a capital adequacy ratio of 16.5% and prevalence (over 90%) of the highest quality capital.

[28] Ibid, 65.
[29] Ibid, 67.

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