PolicyPaper

Overcoming Barriers: How the EU Can Improve Trade Finance Access for Neighbouring Countries

This policy brief examines the relationships between the European Union (EU) and its neighbouring countries in financial services, with a particular focus on trade finance. Historically, European banks have played a prominent role in this region, providing capital for business investments, and acting as intermediaries for financial services. They have been essential as correspondent banks, facilitating the trade finance necessary for international trade. Correspondent banking supports cross-border transactions and financial inclusion by enabling banks to access financial services in various jurisdictions.

However, following the financial crisis, the EU reformed its financial services regulations, weakening these relationships in trade finance. In consequence, the role of EU correspondent banks and their provision of trade finance in neighbouring countries has declined. European banks have since withdrawn from the EU's eastern rim and reduced their exposure in southern neighbouring countries.

To better understand developments in financial services integration and the ability of operators in neighbouring countries to utilise financial services in the EU, this policy paper explores their access to EU correspondent banking and trade finance. Additionally, it reviews current trade agreements related to financial services between the EU and its neighbouring countries, and concludes with policy recommendations for European policymakers to facilitate financial integration with the EU and mitigate risks of neighbouring countries distancing themselves further from the EU.

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1. How trade finance works

Trade finance is vital for facilitating international trade by providing financial instruments that mitigate the risks associated with cross-border transactions. This field is crucial for managing challenges such as currency fluctuations, political instability, and the risk of non-payment, which are inherent in international trade for both importing and exporting firms. It is estimated that approximately 80% of global trade is supported by trade finance.[1]

Risk mitigation is a primary function of trade finance, protecting sellers from the risk of non-payment. Trade finance also enhances access to international markets by improving the creditworthiness of companies through insurance or third-party guarantees, making it easier for firms, especially small and medium-sized enterprises (SMEs), to obtain credit. Furthermore, trade finance facilitates improvements in cash flow by allowing sellers to receive payments earlier based on agreed-upon credit terms, which is particularly important for businesses requiring significant upfront investments due to their production and sales cycles. Payment assurance is another key aspect, ensuring that payments are made, goods are delivered as expected, and contractual terms are adhered to.

Common instruments used in trade finance include Letters of Credit, which are commitments by a bank on behalf of the buyer to pay the seller, provided the terms specified in the Letter of Credit are met. Bank Guarantees offer a safety net, covering losses if a buyer fails to meet the contract terms. Trade Credit Insurance protects sellers from the risk of non-payment by buyers, covering both commercial and political risks. Factoring and forfaiting involve selling receivables at a discount, helping companies free up capital tied up in invoices. The role of government through Export Credit Agencies is also significant in trade finance. These agencies provide substantial support, with the European Commission reporting €362 billion in aggregate nominal risk exposure and an officially supported loan portfolio of €85 billion in 2020.[2]

The EU has introduced numerous obligations for financial markets and the banking sector, categorised into prudential and transparency requirements. These regulations and directives aim at ensuring market stability and safety. This framework is part of a broader initiative known as the Capital Markets Union (CMU), which seeks to deepen and further integrate the capital markets across EU member states.

The CMU is an EU policy initiative launched in 2015 aimed at mobilising capital across Europe. Its goal is to strengthen the connection between savings and economic growth, and to bolster the European economy by making it easier for companies, particularly SMEs, to raise capital. The CMU 2020 action plan outlines 16 legislative and non-legislative measures to deepen the integration of financial services. These measures focus on fostering a resilient economic recovery, improving access to financing, and integrating national capital markets within the EU.[3]

Prudential obligations were implemented in response to the global financial crisis, in line with the Basel III international regulatory framework for banks. The aim was to strengthen global financial market stability.[4] These requirements are designed to help banks withstand liquidity shocks and effectively absorb losses, particularly through constraints on their leverage capacity relative to equity. Furthermore, environmental, social, and governance risks requirements , were introduced by the Capital Requirements Directive in 2020 (CRD V) and the Capital Requirements Regulation in 2021 (CRR II).[5] [6]

To enhance transparency, the EU has implemented directives such as the Markets in Financial Instruments Directive (MiFID II) and regulations like the Markets in Financial Instruments Regulation (MiFIR). These initiatives standardise, requirements for financial firms, thereby increasing transparency across financial markets.[7] They improve the consolidation and disclosure of trading data, providing investors with comprehensive information on prices, volumes, and transaction times, and thereby strengthening market data transparency.

1 World Trade Organization. “Trade finance and SMEs: Bridging the gaps in provision.” Geneva, 2016. OMC | Online Bookshop (wto.org)
2 Schlögl, Lukas, David Pfaffenbichler and Werner Raza . “Aligning European export credit agencies with EU policy goals.” European Parliament, Brussels, 2023. https://www.europarl.europa.eu/thinktank/en/document/EXPO_IDA(2023)702590
3 European Commission. “Capital markets union 2020 action plan: A capital markets union for people and businesses.” Brussels, 2024. https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/capital-markets-union/capital-markets-union-2020-action-plan_en
4 Bank for International Settlements. “Basel III: international regulatory framework for banks.” Basel, 2024. https://www.bis.org/bcbs/basel3.htm
5 European Union. Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. Brussels, 2019. https://eur-lex.europa.eu/eli/dir/2019/878/oj/den?locale=en
6 European Union. Regulation (EU) 2019/876 Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012. Brussels, 2019. https://eur-lex.europa.eu/eli/reg/2019/876/oj
7 European Council. MiFIR and MiFID II: Council adopts new rules to strengthen market data transparency. European Council, 2024. https://www.consilium.europa.eu/en/press/press-releases/2024/02/20/mifir-and-mifid-ii-council-adopts-new-rules-to-strengthen-market-data-transparency/

The European Market Infrastructure Regulation (EMIR)[8] plays an important role in regulating high-risk products such as derivatives. It mandates that detailed information about derivative contracts be reported to the European Securities and Markets Authority (ESMA).

Under MiFID I, the European Commission has the authority to determine whether the regulatory systems of non-EU countries are equivalent to the EU's own standards.[9] This involves assessing whether these countries enforce rules that are as stringent as the EU's prudential and business conduct regulations outlined in MiFID II/MiFIR and CRD IV/CRR. Additionally, the Commission must evaluate whether these non-EU countries have an effective system for recognising EU investment firms according to the EU´s legal standards.

Although Article 15 of MiFID II, which previously allowed the Commission to restrict or suspend market access for non-EU firms that did not meet EU standards, has been removed, the Commission's role in making equivalence decisions remains crucial.[10] Failure in doing so could jeopardise EU firms' access to non-EU markets. To pass the equivalence test, non-EU countries must align their regulatory frameworks with MiFID II standards, which may not always be suitable due to different local conditions.[11]

2. How trade finance impacts trade

Efficient trade finance systems boost trade by reducing transaction costs and ensuring capital availability , which is especially crucial for SMEs involved in cross-border trade. The cornerstone of such a system is the involvement of third-party financial institutions, such as banks or insurance companies, that facilitate trade finance activities. Research indicates that disruptions to banks and the availability of trade finance significantly impact exports and imports, resulting in decreasing trading activities.[12]

In the EU's neighbourhood, the availability and sophistication of trade finance tools are unevenly distributed, with Central and Eastern European Countries serving as a prime example. Businesses in regions with strong global banking connections often have better access to these tools.[13] Local and regional banks face significant challenges in adopting advanced mechanisms like supply chain financIcce due to technological constraints and regulatory burdens, as highlighted in the International Chamber of Commerce 2023 report.[14] These discrepancies contribute to variations in the quality, cost, and overall accessibility of trade finance, which in turn affects trade volumes and the economic growth potential between the EU and its neighbours.

Recent research has found that stricter regulatory enforcement under Anti-Money Laundering and Counter Terrorist Financing regulations has led to a surge in compliance costs.[15] This has prompted globally operating banks to reconsider their relationships with correspondent banks. As a result, correspondent banks have reduced their presence in volatile regions and removed certain banks from their networks, deeming the operations with them inherently risky or at least not cost effective.[16] This resulted in a decline in the availability of international payment and trade finance services for local respondent banks and clients. The study also noted that correspondent banks experienced difficulties in "assessing cross border payment transactions, trade finance and currency clearing."[17] The European Bank for Reconstruction and Development (EBRD) partner banks have lost a substantial number of corresponding banking relationships[18] impacting their trade finance activities.

8 European Union. Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories Text with EEA relevance. Brussels, 2012. https://eur-lex.europa.eu/eli/reg/2012/648/oj

9 Through this it examines the authorization process, supervision, enforcement, capital requirements, governance, organisational requirements, conduct of business rules, and rules on market transparency and integrity.

10 Cf. Recital 41 MiFIR (https://www.esma.europa.eu/publications-and-data/interactive-single-rulebook/mifir-cloned/recital), which talks of highly differentiated and fragmented regimes, and Commission Staff Working Paper Impact Assessment accompanying the document Proposal for a Directive of the European Parliament and of the Council on Markets in financial instruments (Recast) and the Proposal for a Regulation of the European Parliament and of the Council on Markets in financial instruments, Brussels, 20.10.2011, SEC (2011) 1226, final (Impact Assessment MiFID II), p. 114. https://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2011/sec_2011_1226_en.pdf

11 For additional information about EU financial, insurance, sustainability regulations, and investment programs cf. Annex 1.

12 Serena Garralda, José Maria and Garima Vasishtha(. "What drives bank-intermediated trade finance? Evidence from cross-country analysis." International Journal of Central Banking, 2019, vol. 15(3). https://ideas.repec.org/a/ijc/ijcjou/y2019q3a7.html

13 European Investment Bank. Ten years of the Vienna Initiative 2009-2019, Publications Office. Luxemburg, 2019. https://data.europa.eu/doi/10.2867/197475

14 International Chamber of Commerce (2023). ICC Trade Register report. Global risks in trade finance. Executive summary. Paris, 2023. https://iccwbo.org/news-publications/policies-reports/icc-trade-register-report/

15 International Chamber of Commerce (2020). ICC Global Survey on Trade Finance. Paris 2020. https://iccwbo.org/wp-content/uploads/sites/3/2020/07/2020-ICC-Global-Trade-Survey-vWeb.pdf

16 Bank for International Settlements. Correspondent Banking – final report. Basel, 2016. https://www.bis.org/cpmi/publ/d147.htm

17 The analysis focused on Bosnia and Herzegovina and Türkiye from the neighbouring countries' side, as both of them have witnessed similar declines in correspondent banking relationships.

18 Borchert, Lea, Ralph De Haas, Karolin Kirschenmann, and Alison Schultz. "Broken relationships: De-risking by correspondent banks and international trade." EBRD Working Paper No. 285. London, 2023. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4658618

Another concerning factor is the EU Late Payments Directive, designed to ensure timely payments, which presents challenges in trade finance, particularly for supply chain financing.[19] By enforcing stricter payment terms, the directive restricts the flexibility that buyers and sellers have in managing working capital. This leads to increased financing needs for SMEs, estimated at around EUR 2 trillion. Consequently, higher financing costs impact trade finance by increasing the overall cost of doing business and dampening trade activity.[20]

3. How trade finance impacts trade with the EU's neighbouring countries

This section begins with a comprehensive overview of the financial trade agreements between EU neighbouring countries and the EU, highlighting significant gaps and the lack of specific provisions related to trade finance. It also outlines the limited scope of EU adequacy decisions and concludes with an analysis of the decline of EU correspondent banks in neighbouring countries, which negatively impacts their ability to trade.

The notable gaps in financial services provisions in the EU's agreements with its neighbourhood

The EU has concluded Stabilisation and Association Agreements or Association Agreements (AAs) of varying depths with all neighbouring countries. However, these agreements either lack dedicated provisions for trade finance or have significant limitations in their commitments regarding financial services. At best, they include only a limited number of provisions related to financial services.

Thus, the framework is more comprehensive and robust for countries granted the prospect of EU membership. Regardless of the different stages of the accession process, candidates or potential candidates are expected to adhere to various legal instruments for the progressive adoption of the acquis communautaire, which binds their commitment to establishing a functioning common market. Accordingly, the countries of the Western Balkans, as well as Eastern Partnership countries, are governed by agreements that include a structured framework for financial services regulation.

In contrast, financial services trade between the EU and its southern neighbourhood, which includes Mediterranean countries without an accession perspective, is the least structured. This is reflected in the weaker provisions in the Euro-Mediterranean agreements.

Western Balkans

In the case of the Western Balkans, the EU's agreements with Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia include provisions for cooperation in banking, insurance, and other financial services. A core element of these agreements is that both parties agree to implement specific measures on how legal entities operate within their respective territories for prudential reasons, such as protecting investors, depositors, policyholders, or individuals to whom financial service suppliers owe a fiduciary duty. This is to ensure the integrity and stability of the financial system. Given the significant presence of European banking groups in their territories, Western Balkan countries are particularly interested in regulatory and standards convergence with the EU system.

In 2015, Albania, the Federation of Bosnia and Herzegovina, the Republic of Srpska, Montenegro, the Republic of Macedonia, Serbia signed a Memorandum of Cooperation with the European Banking Authority (EBA) "to develop concrete arrangements for cooperation and exchange of information between [their] authorities and the EBA."[21] Subsequently, in 2016, Kosovo signed a letter of adherence to the Memorandum of Cooperation. A key objective of the Memorandum is to align regulatory and supervisory standards with those of the EU within an appropriate timeframe.[22]

Eastern Partnership

With the exception of Belarus and Azerbaijan, countries from the Eastern Partnership have the largest and most robust set of provisions on financial services trade in the form of AAs. These agreements include chapters on banking, insurance, and other financial services cooperation. Notably, some agreements even include provisions for "new financial services." Although the agreements do not specify what constitutes a new financial service, they recognise, both de jure and de facto, the evolving nature of technology. More importantly, these agreements ensure that new financial services receive no less favourable treatment than that provided to domestic financial service suppliers under the party's domestic law.

19 European Commission. "Late Payment Directive." Brussels, 2024. https://single-market-economy.ec.europa.eu/smes/sme-strategy/late-payment-directive_en
20 Trade Finance Global. "The EU's new tightrope walk on the Late Payments Regulation." London, 2023. https://www.tradefinanceglobal.com/posts/the-eus-new-tightrope-walk-on-the-late-payments-regulation/
21 Memorandum of Cooperation between the European Banking Authority (the 'EBA') and the Banking Agency of the Federation of Bosnia and Herzegovina, the Banking Agency of the Republic of Srpska, the National Bank of the Republic of Macedonia, the Central Bank of Montenegro, the National Bank of Serbia, and the Bank of Albania. https://www.eba.europa.eu/sites/default/files/document_library/961955/Memorandum%20of%20Cooperation%20-%20EBA%20-%20SSE%20Authorities.pdf
22 ibd., p.7.

Armenia, Georgia, Moldova, and Ukraine have the newest and most advanced provisions on financial services, as all four nations have taken steps towards further EU integration, with all except Armenia being official EU candidate countries. Before granting candidate status, the EU signed Deep and Comprehensive Free Trade Agreements (DCFTAs) with Georgia, Moldova, and Ukraine. These agreements aim for the full liberalisation of most financial services. However, EU members were allowed to unilaterally specify, in separate annexes, the economic activities where they reserve the right to national treatment or most-favoured nation treatment. As a result, many reservations to national treatment or most-favoured nation status are still included in these treaties. This has resulted in a situation where full liberalisation has not been achieved, hindering the development of a wider range of financial services accessible to EU neighbouring countries (see Annex 2).

The cases of Armenia, and particularly Georgia, Moldova, and Ukraine, warrant separate consideration. The EU has signed AAs with these four countries, which include DCFTAs with Georgia, Moldova, and Ukraine. The AAs provide the overall framework for political association and economic integration, while the DCFTAs focus on the comprehensive liberalisation of trade and economic integration. These agreements aim at fully liberalising most financial services, allowing EU members unilaterally to specify, in separate annexes, the economic activities where they reserve the right to apply national treatment or most-favoured nation treatment. Unlike other countries, these four nations have more in-depth and newer agreements, with the oldest being fully adopted in 2016. All four nations have taken steps towards further EU integration, with all except Armenia being official EU candidate countries.

Southern Neighbourhood

For nations signatory to the Euro-Mediterranean Association Agreements, including Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, and Tunisia, the commitment levels vary widely. While most of these agreements include financial cooperation as one of their objectives, the majority focus on cooperation in financial services primarily to counter money laundering and prevent criminal activities. Additionally, some agreements specify in more detail the areas on which financial cooperation should focus. For example, the agreements with Algeria, Morocco, Lebanon, and Tunisia aim to foster financial cooperation, facilitate economic reforms, upgrade infrastructure, encourage private investment, and support job-creating activities. In the case of Algeria, the agreement specifically promotes the development of financial services with an emphasis on creating SMEs.

A significant distinction in the relationship between the EU and its southern neighbours is that, according to the EU treaty, none of these countries is eligible for EU membership. Therefore, these agreements do not encompass compliance with the acquis communautaire. However, there are exceptions with Jordan, Morocco, and Tunisia, where the agreements with the EU include provisions for the approximation of standards and rules between parties to strengthen and restructure the financial sector. This might suggest the presence of the "Brussels Effect" in these countries, particularly concerning trade in financial services.

The limited scope of EU adequacy decisions

The European Commission can enhance cross-border compliance and promote financial services trade by recognising certain parts of a third country's regulatory framework as equivalent to that of the EU. This recognition is based on a risk assessment conducted by European financial authorities such as the EBA, ESMA, or the European Insurance and Occupational Pensions Authority. Subsequently, the Commission enacts implementing or delegated acts to confer limited adequacy status.

However, critics have pointed out that, in practice, the current approach to adequacy decisions in the EU is fragmented. It consists of isolated provisions evaluated separately within different legislative acts. This handling not only lacks transparency but also results in a piecemeal approach to granting adequacy.[23]

The Declining Role of EU Correspondent Banks

In the financial landscape of the EU and its neighbours, the banking sector has undergone considerable changes driven by deleveraging, strategic withdrawals, mergers and acquisitions, and privatisation.[24]

Specifically, in the Western Balkans, these changes were driven by a reorientation of EU-based banks, which owned most shares in banks in EU candidate countries. The share of assets held by EU banks in this region fell from 66% to 57%, while those from other foreign banks rose from 12% to 19% between December 2013 and June 2018. This trend is even more pronounced over a longer span, from 2006 to 2018, in Albania, Montenegro, and Serbia, where the share of EU bank assets fell more sharply.

23 KPMG International. ˝EU financial services regulation. A new agenda demands a new approach." Amstelveen, Netherlands, 2019. https://assets.kpmg.com/content/dam/kpmg/hu/pdf/eu-financial-services-regulation.pdf

24 Comunale, Mariarosaria, André Geis, Ioannis Gkrintzalis, Isabella Moder, Eva Katalin Polgar, and Li Savelin.˝Financial Stability Assessment for EU Candidate Countries and Potential Candidates." SSRN Electronic Journal. Elsevier Inc., New York, N.Y., 2019. https://doi.org/10.2139/ssrn.3454510

The largest market share losses were recorded among EU banks in Montenegro (20 percentage points), Albania (14 percentage points), Bosnia and Herzegovina (9 percentage points), and Kosovo (7 percentage points) from 2013 through 2018. In contrast, Serbia experienced this development by the end of 2006 and saw stabilisation from that point to 2013. Concurrently, the market share of non-EU foreign banks and, to a lesser extent, domestic banks increased, reflecting a broader reconfiguration of the banking landscape in these regions. Non-EU banks in Bosnia and Herzegovina increased their market share by 13%, in Montenegro by 9%, and in Albania by 6% during the same period.

This shift in market dynamics is linked to the deleveraging processes forced upon EU banks in the wake of the global financial crisis. Over time, this has led to a strategic withdrawal from several markets, as many of the EU bank subsidiaries were sold off to local or other non-EU entities.[25] Between 2009 and 2017, there were nine major bank ownership transactions in the Balkans involving EU banks. For instance, the Albanian operations of the National Bank of Greece were acquired by a local entity, and the Republic of Macedonia branches of Greek Alpha Bank were sold to a Swiss investor. Additionally, during the same period, there were four such transactions in the Balkans involving US investors and three involving Turkish investors. Furthermore, there were four transactions in the Balkans involving new non-Western foreign entrants, such as investors from the United Arab Emirates in Kosovo and Serbia.

This underlines a long-term strategic realignment in the banking sectors of the region, which was also accompanied by a decline in EU correspondent banks in neighbouring countries. In 2013, 75% of correspondent banks were based in the US and Germany. This number dropped to 54% in 2019. Between 2011 and 2018, Eastern Europe experienced a 21.1% decline in correspondent banks.[26] To understand the economic impacts of this reduced availability, a survey conducted by the Office of the Chief Economist and the Trade Facilitation Programme team at the end of 2019 revealed an average 24% reduction in correspondent banks between 2012 and 2018 across the EBRD regions.[27] However, the impact varied significantly among countries. For example, Türkiye saw less than a 15% drop, whereas in Egypt, Tunisia, and Ukraine, many correspondent banking services transitioned from smaller private banks to state banks, likely because of their simpler and less costly compliance procedures.

This trend continued until 2022, with Eastern Europe experiencing a total decline of 34% and Northern Africa seeing a reduction of 37.4% in correspondent banking from 2011 to 2022.[28] These reductions have significantly impacted local banks' abilities to access crucial financial services, such as payment transactions and currency clearing.

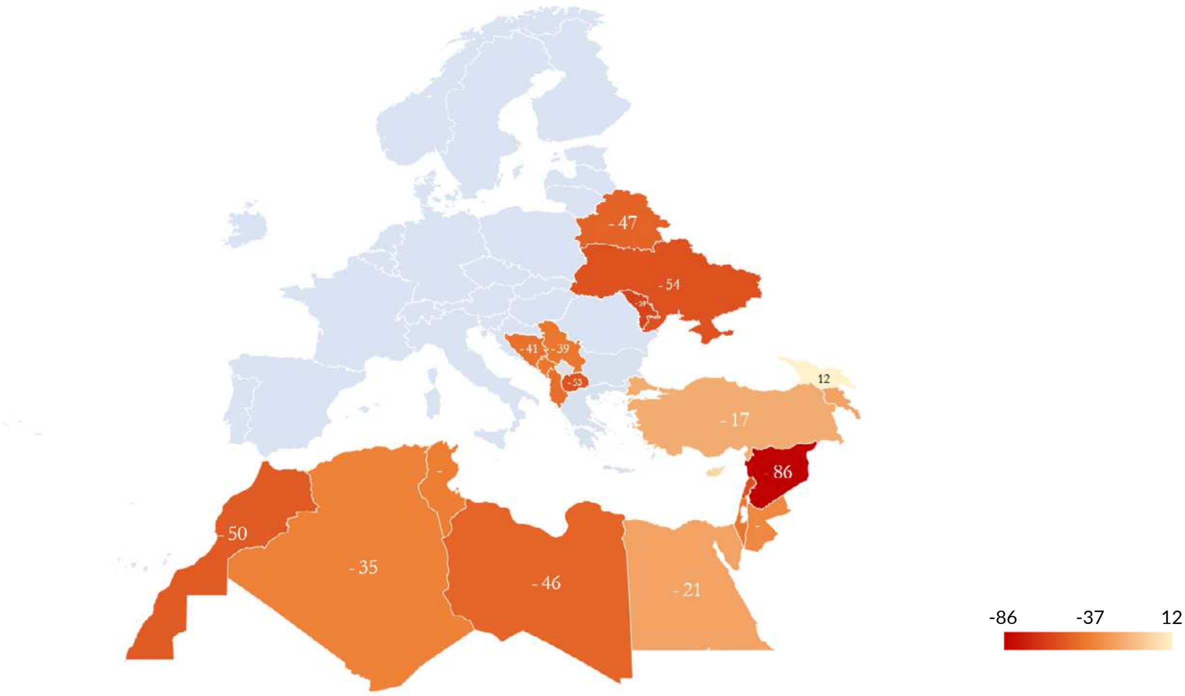
Integrating banks from higher-risk regions into global financial markets remains a challenge due to difficulties in establishing or maintaining correspondent banking relationships, particularly for smaller banks. As highlighted by the EBRD[29], this limitation constrains these banks' access to necessary trade finance facilities, which are often only available through specialised international programmes.

Additionally, the shift in correspondent banking sources is accompanied by higher transaction costs due to longer intermediation chains.[30] Shifting correspondent banking sources, which is a potential solution, incurs significant costs. Negotiating with existing partners for increased capacity takes time, disrupting business continuity. Finding new channels is resource-intensive, and the terms may be less favourable, often leading to higher transaction fees. EBRD research estimates a 35% increase on average in costs for banks in the EBRD region between 2017 and 2019.[31]

This situation further highlights a broader concern: the concentration of correspondent banking relationships. Smaller banks, particularly reliant on a single partner, become vulnerable to unilaterally imposed terms during source shifts.[32]

25 International Monetary Fund. European Dept. (2017). "3. Banking Challenges in the Western Balkans: Prospects and Challenges." In Regional Economic Outlook. November 2017 International Monetary Fund, Washington, D.C., 2017. https://www.elibrary.imf.org/display/book/9781484319611/ch03.xml
26 Rice, Tara, Goetz von Peter, G., and Codruta Boar. "On the global retreat of correspondent banks." BIS Quarterly Review, Basel, 2020. https://www.bis.org/publ/qtrpdf/r_qt2003g.htm
27 Including: Albania, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Egypt, Georgia, Greece, Jordan, Kazakhstan, Kosovo, the Kyrgyz Republic, Lebanon Moldova, Mongolia, Montenegro, Morocco, North Macedonia, Romania, Serbia, Tajikistan, Tunisia, Türkiye, Ukraine, Uzbekistan, and the West Bank and Gaza.
28 Bank for International Settlements. "CPMI correspondent banking chartpack." Basel, 2023. https://www.bis.org/cpmi/paysysinfo/corr_bank_data/chartpack_2305.pdf
29 De Haas, Ralph and Rudolf Putz. "Addressing compliance costs as a barrier to Correspondent Banking and Trade Finance." Trade Finance Global, London, 2023. https://www.tradefinanceglobal.com/posts/addressing-compliance-costs-as-a-barrier-to-correspondent-banking-and-trade-finance/
30 World Bank. Withdraw from correspondent banking: where, why, and what to do about it. Working paper. The World Bank, Washington, D.C., 2015. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/113021467990964789/withdraw-from-correspondent-banking-where-why-and-what-to-do-about-it
31 Regarding the following services: trade finance, cross-border payment transactions, and currency clearing.
32 Ibid. World Bank, 2015 (FN30).

FIGURE 1: **Change in correspondent banking in the EU neighbourhood, 2011 – 2022**



Percentage change in the number of active correspondent banks, 2011 – 2022

Source: Bank for International Settlements (BIS) and EBRD,
graphic powered by Bing © GeoNames, Microsoft, OpenStreetMap, TomTom.

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The challenges have also increased for local banks, particularly in accessing US dollars and trade finance. In 2013, only 7% of banks reported difficulties in accessing US dollars, but this escalated to 26% by 2019. Similarly, the difficulty in accessing trade finance services increased from 11% to 19%, and those reporting challenges in accessing payment services rose from 5% to 13% during the same period. About 10% of banks reported that their access to the U.S. market was either critically impaired or fully cut off due to the withdrawal of correspondent banks.

Further analysis reveals that regions experiencing significant reductions in correspondent banking activities have seen a corresponding decline in their export capacities.[33] Firms located in towns and cities that have faced large declines in correspondent banking relationships are less likely to export, underscoring the critical role of correspondent banks in facilitating international trade through essential financial services like letters of credit.

Additionally, recent studies indicate that robust trade finance mechanisms not only mitigate the negative impacts on exports during economic crises[34] but also enhance trade resilience in times of heightened uncertainty.[35] The overall picture suggests that regulatory and compliance obstacles are increasing for trade finance. Reduced access to finance in neighbouring countries lowers their export capabilities (see Annex 3 for more detail on EU neighbouring countries' trade finance systems).

In the long term, businesses in neighbouring countries that rely on trade finance face higher costs or reduced availability of credit, affecting their ability to engage in international trade. This is particularly significant for neighbouring countries with lower economic and financial development, where foreign banks facilitate trade through the availability of finance and trade finance-related products.[36]

33 De Haas, Ralph, Karolin Kirschenmann, and Alison Schultz. (2022)."Global payment disruptions and firm-level exports." ZEW Discussion Paper Nr. 22-067. ZEW – Leibniz Centre for European Economic Research, Mannheim, 2022. https://www.zew.de/en/publications/global-payment-disruptions-and-firm-level-exports-1

34 Crozet, Matthieu, Banu Demir, and Beata Javorcik, "International Trade and Letters of Credit: A Double-Edged Sword in Times of Crises." Research Article. IMF Economic Review, vol. 70. International Monetary Fund, Washington, D.C., 2021. https://link.springer.com/article/10.1057/s41308-021-00155-3

35 Demir, Banuand Beata Javorcik. (2020). "Trade finance matters: evidence from the COVID-19 crisis." Oxford Review of Economic Policy, 36 (Supplement_1). Oxford, 2020. S397-S408. https://academic.oup.com/oxrep/article/36/Supplement_1/S397/5899020

36 Claessens, Stijn, Omar Hassib, and Neeltje van Horen. "The role of foreign banks in trade." Bank of England Working Paper No. 656. Bank of England, London, 2017. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2949783

EU banks offering trade finance services in the EU neighbourhood also encounter increasing competition from alternative finance products, particularly as multinational corporations increasingly opt for open account transactions.[37] The higher costs and administrative complexities associated with documentary finance products are ultimately passed on to customers, making them less appealing compared to simpler and more flexible alternatives. This situation requires EU banks to explore alternative solutions for their clients and improve efficiency.

Moreover, EU banks are increasingly facing competition in EU neighbouring countries from non-Western third countries such as China and others. This adds to the pressure on EU banks to adapt and innovate to maintain their market position.

4. Which mitigation measures could the EU pursue to alleviate the negative effects of EU financial regulations?

EU policymakers should prioritise efforts to facilitate trade finance contracts between neighbouring countries and EU banks, including EU correspondent banks operating in the neighbourhood. This is desirable and important for the EU neighbourhood as limited access to EU correspondent banking and trade finance hampers neighbouring countries' ability to maximise their export performance and increases their dependence on alternative sources from third countries. By streamlining processes and reducing barriers, policymakers can foster economic growth, enhance regional stability, and promote mutual prosperity within the EU neighbourhood.

Our policy recommendations advocate for a broader approach, urging the EU to actively pursue policies aimed at strengthening the EU banking sector's competitiveness in the neighbourhood. By offering key trade financing services to these countries, the EU can support their trade performance while advancing its own economic interests.[38] This approach aligns with the goal of fostering regional economic integration and promoting sustainable development across the EU neighbourhood.

POLICY OPTION 1

Increase of access to funding in EU neighbouring countries

Access to public and private funding plays a crucial role in shaping the availability of financial products and services for businesses, in particular SMEs in the region. By increasing funding, more businesses, including those that typically do not qualify for bank financing, could access financial services, potentially boosting economic activity. It is recommended that EU Free Trade Agreements include provisions for guarantee instruments. These instruments can reduce the collateral requirements for SMEs, extend loan terms, and lower borrowing costs, thus facilitating easier access to finance. Some successful implementations of such instruments have been observed in the DCFTAs, which have also provided incentives to finance higher-risk SMEs.

Moreover, there is a growing need for microfinance in the EU neighbourhood, which requires increased attention from the European Investment Bank and the EBRD. Given that capital markets in many parts of the EU neighbourhood are underdeveloped, expanding microfinance operations could serve as a crucial support mechanism for economic development in these areas. By providing access to small-scale financial services, microfinance initiatives can empower entrepreneurs and small businesses, foster local economic growth, and contribute to poverty alleviation efforts in the region.

POLICY OPTION 2

Strengthening regulatory cooperation, information exchange, and capacity building

The complex nature of trade finance, which often involves numerous paper-based transactions, presents significant challenges in the interactions between the EU and neighbouring countries. The use of extensive documentation and varying regulatory standards across borders increases the risk of errors, delays, and fraud, thereby hindering the seamless flow of trade. Moreover, the complexity of these trade finance products has resulted in declining interest among SMEs, who often perceive them as overly complicated.

37 Open account transactions simplify the process by bypassing the complexities of document exchanges and banking obligations. However, they may involve higher risks as they depend heavily on the trust between the parties involved.

38 In formulating these policy recommendations, it is important to note that, while there is ample evidence of a general disintegration of the financial market between the EU and its neighbourhood in recent years, key financial data on specific EU neighbouring countries is difficult to obtain and not always publicly available.

To address these issues, it is essential to enhance cooperation and streamline information exchange in cross-border transactions. This can be achieved through the following measures:

- **Capacity building for local supervisors:** Implement targeted technical assistance programs to train local supervisors. This will help align regulatory frameworks and interests of both home and host countries, particularly concerning the operations of euro-area banks in these regions.

- **Establish robust local frameworks for investors:** Strengthen the regulatory and supervisory frameworks in neighbourhood countries to create a more secure environment for investors.

- **Develop financial safety nets:** Explore the establishment of comprehensive financial safety measures for banks operating in the neighbourhood countries, especially those that are subsidiaries of EU banks. These measures could include enhanced regulation and supervision, lender of last resort facilities, deposit insurance, and effective bank resolution frameworks.

These initiatives aim to reduce the complexity and associated risks of trade finance, making it more accessible and appealing to SMEs, and ensuring a smoother flow of trade between the EU and its neighbouring countries.

POLICY OPTION 3

Expanding adequacy in neighbourhood countries

Through special provisions included in some EU financial regulations, the European Commission has the authority to designate parts of a third country's regulatory framework as EU-equivalent. This is intended to facilitate cross-border compliance and increase financial services trade. However, currently, such recognition has been granted only in specific regulatory areas and to a limited number of EU neighbouring countries. These countries include Bosnia and Herzegovina, Israel, the Republic of Macedonia, Serbia, and Türkiye. There is potential for expanding this recognition to more neighbouring countries in the future.

Furthermore, the current approach to adequacy decisions is criticised for being a patchwork of isolated and individually evaluated adequacy provisions across different legislative acts. This fragmented and often opaque way of granting partial adequacy could be replaced by a more unified adequacy framework. Such a framework could address these issues by streamlining and clarifying the process.

To reduce the complexity of adequacy-granting procedures and avoid supervisory conflicts with non-EU states, enhancing bi- and multilateral regulatory cooperation could be beneficial. Such cooperation would help harmonise regulatory standards and prevent frictions between different regulatory systems, thereby facilitating smoother international trade and compliance.

POLICY OPTION 4

Modernising and enhancing trade agreements with neighbouring countries

Our analysis highlights significant shortcomings in the financial services provisions within the EU's current trade agreements with neighbouring countries. Notably, there is a lack of direct references to trade finance. Even in the agreements with Armenia, Georgia, Moldova, and Ukraine, which do specify mutual commitments to liberalise trade in financial services, the annexes to these agreements contain reservations from EU member states regarding liberalisation. Additionally, issues related to national treatment or most favoured nation status.

These limited provisions and extensive reservations in current EU association agreements may impede the development of financial services trade between neighbouring countries and the EU. Our policy recommendation focuses on elevating ambitions and reassessing priorities in the EU's trade negotiations with these countries, where financial services have often been overlooked. We suggest enhancing discussions and collaboration, particularly in areas such as commercial establishment and operational freedom. Strengthening these aspects of the agreements will improve access to competitive financial services, including trade finance, for the EU´s neighbouring region. This approach aims not only to close the current gaps but also to foster a more robust economic relationship through improved and more inclusive financial service provisions.

5. Concluding remarks

Recent EU financial regulations have heightened the risk profile of trade finance provided by the EU, resulting in significant cross-border implications, particularly in its neighbouring regions. Our research indicates a notable shift, with European banks diminishing their roles as correspondent banks for trade finance in these neighbouring countries.

Consequently, countries in the EU neighbourhood are facing decreased access to EU correspondent banking and trade finance, which hinders their ability to maximise export performance. This reduction in access is particularly challenging for countries with lower economic and financial development, as they rely heavily on trade finance. As a result, they are facing higher costs and reduced availability of credit.

To mitigate these negative impacts, EU policymakers should take several actions:

- **Increase access to funding:** Boosting funding in neighbouring countries is crucial to support their economic activities and alleviate financial constraints.
- **Strengthen regulatory cooperation and capacity building:** Enhancing regulatory cooperation and information exchange, along with building local capacities, will facilitate smoother financial interactions and promote stability.
- **Expand regulatory adequacy:** Broadening the scope of regulatory adequacy will help align standards and simplify compliance procedures across borders, enhancing financial integration.
- **Modernise and deepen trade agreements:** Updating and deepening trade agreements, including improving institutional mechanisms, is essential to fostering a more robust economic relationship and promoting trade and investment flows.

Moreover, in the face of increasing competition from third countries like China, it is vital for the EU to support its banking sector in becoming more competitive in offering trade finance services in its neighbourhood. Acting on these recommendations is not only crucial for enhancing the EU's economic ties with these countries but also to prevent the risk of these nations drifting further apart from the EU politically.

Epilogue

This paper is the fourth in a series, following the papers "The Carbon Border Adjustment Mechanism (CBAM) and Its Border Effects: How Can Europe Become a Better Neighbour?", "The Extraterritorial Impact of EU Digital Regulations: How Can the EU Minimise Adverse Effects for the Neighbourhood?" and "Beyond Barriers: Rethinking CAP to Enable Agricultural Export Diversity in the EU Neighbourhood". It is part of the Bertelsmann Stiftung's project "Sovereign Europe: Strategic Management of Global Interdependence" under the Europe Programme. The series aims to provide an in-depth analysis of the "Brussels Effect" on the European Union's neighbouring regions during a time of escalating geopolitical tensions.

The series focuses on assessing the costs of the EU's internal market regulations on neighbouring areas engaged in trade with the EU. These regions include the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia, Kosovo), Türkiye, the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine), and the Southern Neighbourhood (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia).

A central aspect of this research is to propose methods to mitigate the regulatory burden on these neighbouring regions. This analysis is crucial as the EU seeks to maintain its regional influence amidst growing competition, notably from China. This work builds on the study "Keeping friends closer: Why the EU should address new geoeconomic realities and get its neighbours back in the fold" on the EU's economic relationships with its neighbours across various sectors like trade in goods and services, finance, technology, knowledge exchange, infrastructure, and labour mobility. Notably, the foundational study on interconnectivity was recognised by Foreign Affairs as one of the top ten books of 2023.

This research is conducted in partnership with the European Centre for International Political Economy (ECIPE), demonstrating our commitment to providing insightful and actionable policy recommendations.

ANNEX 1

After the 2008 financial crisis, policymakers worldwide committed to tightening regulations on financial markets to prevent a recurrence of similar incidents. The EU pursued this objective through a comprehensive set of legislative and non-legislative acts that affected all parts of the financial services sector.

EU Banking Regulations

In the banking sector, the Basel Committee on Banking Supervision, an international body comprised of major central banks and responsible for establishing widely followed standards on banking regulation, took the lead in defining a new global regulatory framework. In 2010, it released an initial version of the Basel III accord, which was finalised in 2017 and included new measures to stabilise the global banking sector. The EU has been gradually implementing the agreement through its own legislation, a process expected to conclude by 2024.

While doing so, the EU has assumed an expansive role with the Single Rulebook, which aims at harmonising banking standards and supervisory practices across member states in line with the enhanced Basel III framework. This initiative also contributes to advancing the completion of the Single Market in financial services.

Two essential components of the Single Rulebook are the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR). The latest iterations, CRD VI and CRR III, will finalise the implementation of Basel III in the EU from January 1st, 2025. These regulations impose "prudential requirements for capital, liquidity and credit risk for investment firms and credit institutions" (CRR) as well as "capital buffers, bankers' remuneration and bonuses, prudential supervision and corporate governance" (CRD). The goal is to improve financial sector stability by increasing the amount of equity required per asset, thereby making particularly risky financial instruments less profitable. The capital requirements "apply at group, parent and subsidiary levels if the group's head office is located in the EU." This could lead to substantial extraterritorial effects on non-EU subsidiaries of EU groups.

The Single Rulebook also serves as the foundation for the Banking Union, a political programme initially proposed in the 2012 Four Presidents' Report and subsequently endorsed by the Euro Area Summit and the European Council. A Commission roadmap set out the Banking Union's architecture, which today consists of three pillars: (1) stronger prudential requirements for banks, (2) rules for managing failing banks, and (3) improved protection for depositors in all member states. So far, only the first two pillars have been realised through the Single Supervisory Mechanism Regulation (SSM) and Single Resolution Mechanism Regulation (SRM) respectively. The SSM unifies banking supervisory approaches across the EU under the auspices of the ECB and EBA to better tackle cross-border spill-overs and contagion related to bank crises. The SRM introduces EU-wide rules and institutions for resolving major failing banks and mandates the creation of a European resolution fund, financed by the banking sector. The third pillar, the Commission's European Deposit Insurance Scheme (EDIS), has faced significant legislative delays since its proposal in 2015 and was only revived as late as 2023. The EDIS aims to provide a more uniform and robust deposit insurance scheme across the EU, thereby further safeguarding depositors and enhancing financial stability.

EU Capital Markets Regulations

Since the 2008 financial crisis, the regulatory landscape governing EU capital markets has undergone gradual tightening. Key legislative measures include the Markets in Financial Instruments Directive II (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR), initially adopted in 2014. MiFID II underwent amendments in 2021, and further modifications were applied to both MiFID II and MiFIR in 2024. These regulations serve as the cornerstone for ensuring transparency and orderly execution of securities trades in the EU. Depending on the interpretation, MiFID II has varying degrees of extraterritorial effects concerning reporting obligations.

Additional key legislation in the field of derivatives is the European Market Infrastructure Regulation (EMIR), first introduced in 2012 and subsequently twice amended in 2019EMIR mandates the reporting of derivative contracts to trade repositories, aiming to enhance transparency in over-the-counter derivative markets for better prudential oversight. This reporting obligation extends to non-EU branches of EU contracting counterparties and, in some cases, to transactions between two non-EU entities if there is a "direct, substantial and foreseeable effect within the Union or where such an obligation is necessary or appropriate to prevent the evasion" of the regulation.

Following the initial legislative acts, the 2015 Five Presidents' Report highlighted the need for a comprehensive Capital Markets Union (CMU) to facilitate cross-border access to capital within the EU. The aim was to broaden safe and unified financing options beyond bank loans for European consumers, companies, and investors. In response, the Commission released an action plan later that year, which was followed by an extensive number of legislative acts. Together with the Banking Union, this set of measures is intended to contribute to the goal of completing Economic and Monetary Union in the long-term.

In addition to MiFIR/MiFID and EMIR, significant acts related to the CMU include the Securitisation Regulation of 2017 and the 2019 Investment Firms Regulation (IFR)/ Investment Firms Directive (IFD). The former "introduces common rules on due diligence, risk retention and transparency for all securitisations". The latter two acts tailor risk management requirements for investment firms more precisely to their business model: originally, all investment firms were required to comply with CRD/CRR regulations. The IFR/IFD was introduced in order to address the specific risk profiles of non-systemic investment firms, in contrast to CRD/CRR-covered credit institutions and systemic investment firms. Similar to CRD/CRR, the capital requirement provisions of IFR/IFD can have extraterritorial effects, particularly on offshored subsidiaries belonging to groups headquartered inside the EU.

Indeed, several other EU capital markets legislation have extraterritorial influence. These include the 2011 Alternative Investment Fund Managers Directive, the 2012 Short Selling Regulation, the 2014 Market Abuse Regulation / Criminal Sanctions for Market Abuse Directive, and the 2016 Benchmark Regulation. Each of these regulations plays a crucial role in ensuring transparency, integrity, and stability in the European financial markets, with implications extending beyond the EU borders.

EU Payments Regulation

The Payment Services Directive (PSD), initially introduced in 2007 and later amended in 2015to become PSDII, regulates all payments in the EU. Its objective is to set common standards to integrate the European payment market and ensure that both traditional banks and non-bank providers operate on equal footing. PSDII also prioritises consumer protection in financial services. The directive is soon to be amended a second time (PSDIII) and additionally complemented by a regulation to address contemporary developments.

For cross-border euro credit transfer and direct debit, the Single European Payment Area (SEPA) regulation sets out detailed procedures to streamline transactions. SEPA has extensive extraterritorial implications, as nine non-EU countries voluntarily take part in facilitating payments with euro-using countries. Yet, so far, none of these are neighbourhood countries.

EU Insurance Regulations

The European insurance prudential regime is primarily governed by the Solvency II directive, established in 2009 and fully implemented in 2016 after several delays due to adjustments. Replacing regulations dating back to 1973, Solvency II was in response to the need for a modern, risk-based approach to mitigate potential risks within the insurance sector following the 2008 financial crisis. Its goal is to safeguard insurance policyholders and beneficiaries by imposing comprehensive requirements on insurance providers across three main pillars: (1) quantitative standards for asset/liability valuation and capital adequacy, (2) qualitative requirements related to governance and risk management, and, (3) supervisory reporting and public disclosure requirements.

In the absence of adequacy status, Solvency II has extraterritorial effects, such as extended requirements (e.g. on collateral) for non-European Economic Area (EEA) providers compared to their EEA counterparts, thus potentially reducing their competitiveness within the EEA market. Additionally, it requires EEA-based insurance groups to adhere to EU standards for calculating global group solvency, even for non-EEA subsidiaries. This imposes additional compliance costs and may require non-EEA subsidiaries to maintain extra assets to comply with differing evaluation methods, both within and outside the EEA.

EU Sustainability Regulations

As part of the European Green Deal, the EU has begun to introduce various legislative acts related to sustainable finance. These measures, such as the Sustainable Finance Disclosure Regulation and the Corporate Sustainability Reporting Directive, obligate financial services providers to collect and publish information on their activities' sustainability. This is intended to spur green investments, but it simultaneously imposes significant compliance costs on financial services providers in the EU, hence potentially reducing capabilities to expand to (as of now) less-profitable developing markets in the neighbourhood. Additionally, activities designated as unsustainable under these regulations can have negative implications for businesses. This could further complicate efforts to engage with companies in, neighbouring countries that may not meet the same sustainability criteria as EU countries due to their different development levels.

EU Investment Programmes

To enhance financial access in neighbourhood countries, the Commission has launched the Neighbourhood Investment Platform (NIP). This platform is designed to boost funding for capital-intensive infrastructure projects in transportation, energy, environment, and social development, while also encouraging investments in SMEs. The NIP aims at using combined funds from the EU budget and individual member states to secure loans from European financial institutions and investments from the partner countries to the European Neighbourhood Policy themselves.

Additionally, the European Commission, in partnership with several European development banks, introduced the European Union Initiative for Financial Inclusion. Its goal is to tackle the challenge of limited access to financial resources encountered by micro-, small-, and medium-sized enterprises in the southern neighbourhood, a significant barrier to economic development in the region.

ANNEX 2

The following section details the various financial service reservations of each EU member state, providing an overview of the specific requirements for conducting business within these regions. Notably, the reservations of most EU member states focus on the necessity for financial service providers to acquire licenses to operate within individual EU member states. In some cases, it is necessary to obtain a license to be legally incorporated within the European country in question, and in others, founders or directors must be residents of specific EU countries.

TABLE 1: **Armenia**

Country	Requirement/Reservation	Details
EU	Investment Fund Depositories	Firms must be registered within the EU to act as depositories.
Austria	Insurance and Management	Foreign insurance firms need to be comparable to local entities; two Austrian residents must manage an office branch.
Bulgaria	Insurance	Foreign insurers need home country authorization and local incorporation; permanent residence requirements for key positions.
Cyprus	Securities Brokerage	Only Cyprus Stock Exchange members can undertake securities brokerage, with firms needing to comply with local law.
Germany	Insurance	Foreign insurers can only engage in certain insurances via a German branch or EU/German subsidiary.
Denmark	Insurance	Foreign insurance companies need a Danish license to operate, with specific requirements for air transport insurance.
Estonia	Financial Institutions	Head of a firm or subsidiary must be an Estonian resident; foreign management proportionality in insurance joint stocks.
Hungary	Insurance and Financial Services	Direct insurance must be through a local branch; restrictions on foreign financial entities' involvement in asset management.
Italy	Financial Services	Specific measures for financial advisors; firms managing central securities must be incorporated in Italy and comply with EU law.
Portugal	Financial Services	Financial services and pension management require Portuguese incorporation and authorization; foreign insurers need prior experience.
Poland	Insurance	Insurance intermediaries must be locally incorporated; main branch operation and financial data transfer requirements.
Romania	Market Operations	Market operators must be Romanian legal entities, with exceptions for authorized investment firms.
Slovenia	Financial Services and Insurance	Restrictions on national and most favoured nation treatment for banks and financial institutions in specific insurance sectors.

TABLE 2: **Georgia**

Country	Requirement/Reservation	Details
EU	Investment Fund Depositories	Firms must be registered within the EU.
Austria	Insurance Management	Requires two Austrian residents in management; foreign insurance firms must be comparable to local entities.
Bulgaria	Insurance Authorization and Residency	Foreign insurers need authorization and local incorporation; residency requirements for key management.
Cyprus	Securities Brokerage	Only Cyprus Stock Exchange members allowed; must comply with Companies Law.
Finland	Insurance and Banking Residency; Licenses	Half of a pension insurance firm's board must have EU residency; general agent of Georgian firms must have Finnish residency. Licenses for pension insurance not granted to foreign insurers.
Greece	Representative Offices	Firms can only establish offices where they have a physical presence.
Ireland	Collective Investment Firms Registration	Must be incorporated in Ireland or another member state; stock exchange registration requires Irish authorization.

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Italy	Central Securities Management and Undertakings for Collective Investments in Transferable Securities (UCITS)	Firms must be incorporated in Italy; several reservations regarding UCITS.
Lithuania	Asset Management and Pension Fund Depositories	Firms dealing in asset management and pension funds must be incorporated and have a branch in Lithuania.
Portugal	Financial Services and Pension Management	Requires incorporation and authorization in Portugal; foreign insurers must demonstrate experience.
Poland	Insurance Intermediaries	Must be locally incorporated.
Slovakia	Insurance Business Conduct	Insurance firms must operate through a local subsidiary; certain investment entities must have a specific legal form.
Spain	Insurance Authorization	Insurers must be previously authorized in their country of origin.
Sweden	Insurance Broking Firms and Savings Banks	Non-incorporated insurance broking firms must establish a branch; founders of savings banks must be EU natural persons.

TABLE 3: **Moldova**

Country	Requirement/Reservation	Details
EU	Investment Fund Depositories	Firms must be registered within the EU.
Austria	Insurance Management	Requires two Austrian residents in management; foreign insurance firms must be comparable to local entities.
Bulgaria	Insurance Authorization and Residency	Foreign insurers need authorization and local incorporation; residency requirements for key management.
Cyprus	Securities Brokerage	Only Cyprus Stock Exchange members allowed; must comply with Companies Law.
Finland	Insurance and Banking Residency; Licenses	Half of a pension insurance firm's board must have EU residency; general agent of Moldovan firms must have Finnish residency. Licenses for pension insurance not granted to foreign insurers.
Greece	Representative Offices	Firms can only establish offices where they have a physical presence.
Ireland	Collective Investment Firms Registration	Must be incorporated in Ireland or another member state; stock exchange registration requires Irish authorization.
Italy	Central Securities Management and UCITS	Firms must be incorporated in Italy; several reservations regarding UCITS.
Lithuania	Asset Management and Pension Fund Depositories	Firms dealing in asset management and pension funds must be incorporated and have a branch in Lithuania.
Portugal	Financial Services and Pension Management	Requires incorporation and authorization in Portugal; foreign insurers must demonstrate experience.
Poland	Insurance Intermediaries	Must be locally incorporated.
Slovakia	Insurance Business Conduct	Insurance firms must operate through a local subsidiary; certain investment entities must have a specific legal form.
Spain	Insurance Authorization	Insurers must be previously authorized in their country of origin.
Sweden	Insurance Broking Firms and Savings Banks	Non-incorporated insurance broking firms must establish a branch; founders of savings banks must be EU natural persons.

TABLE 4: **Ukraine**

Country	Requirement/Reservation	Details
EU	Investment Fund Depositories	Firms must be registered within the EU.
Bulgaria	Insurance Authorization and Residency	Foreign insurers need authorization and local incorporation; residency requirements for key management.
Croatia	Settlement and Clearing Services	No reservations except for services provided by the Central Depositary Agency (CDA).
Finland	Insurance Company Board Residency	Half of the board of a pension insurance firm must have EU residency; similar requirement for other insurance companies.
Hungary	Asset Management to Pension Funds	Reserved for firms with seats in an EU member state.
Italy	Pension Fund Resources Management	Firms must harmonize with EU law and have their head office in the EU; foreign intermediaries restricted from investment services.
Lithuania	Depositories of Pension Funds	Only firms registered in Lithuania can act as depositories.
Portugal	Financial Services and Pension Management	Must be done by incorporated and authorized Portuguese firms, excluding insurance.

ANNEX 3

Table 5: Banking Systems in EU neighbouring countries – Latest Research from 2021, ITA, USA[39]

EU Neighbouring Country	Overview	Context
Bosnia and Herzegovina (BiH)	1. At present, there are 21 commercial banks, with 13 operating in the Federation of Bosnia and Herzegovina and 8 in the Republika Srpska (RS) entity. 2. Despite the sector's stability, banks in BiH face challenges in adequately meeting the financing needs of the private sector. This is primarily attributed to higher risk aversion, conservative policies and lending preferences where consumer credit tends to go to government-owned enterprises.	The conservative lending policies driven by EU parent companies can significantly limit the availability of trade finance. This restrictiveness can stifle the growth of enterprises that need funding to expand into international markets, thus impeding overall trade development.
Georgia	1. Both foreign investors and domestic clients in Georgia have access to credit from commercial banks. However, interest rates tend to be high, which may pose a challenge to borrowers. 2. Several international development agencies, such as the International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), U.S. International Development Finance Corporation (DFC), and Asian Development Bank (ADB), have lending programs aimed at providing credit to both large and small businesses in Georgia. 3. Georgia's financial landscape also includes microfinance organisations, with 38 such organisations operating in the country as of the beginning of 2021. These organisations specialise in providing small credit to businesses, particularly to those in need of micro-financing solutions.	The high interest rates charged by banks make borrowing costly, which can deter businesses, especially smaller ones, from taking up loans to finance international trade. This reduces the overall trade volume and the economic benefits that come with an active trade sector.
Moldova	1. Moldova hosts four foreign banks, with OTP Bank (Hungary), Banca Transilvania (Romania), and Erste Bank (Austria) being the most prominent among them. 2. Unlike in western countries, banks in Moldova play a minor role in the country's economic development and business activity. 3. Moldovan banks are well-capitalised; however, they offer limited consumer and business financing options. This contrasts with their high capitalisation levels. 4. Interest rates in Moldova remain elevated compared to the region, potentially posing a challenge for borrowers seeking affordable credit. 5. Banks in Moldova typically require collateral to issue credit, which may hinder access to financing for individuals and businesses without sufficient assets. 6. Moldova's securities market is underdeveloped, limiting investment opportunities for banks. The underdevelopment of the stock market restricts options for long-term investments, leading to limited diversification of bank assets.	The minor role that banks play in economic development and the restrictive credit issuing practices can be particularly detrimental for trade finance. Businesses may find it difficult to secure the necessary funding for trade transactions, leading to missed opportunities and slower economic growth. And the need for substantial collateral to secure financing is a significant barrier for businesses without large asset bases, potentially excluding them from engaging in trade.
Algeria	1. Six state-owned banks hold a commanding 90 percent share of the commercial market in Algeria, indicating a significant presence of government-controlled institutions in the banking sector. 2. Algeria also hosts international banking entities such as Citibank, HSBC, BNP Paribas, Société Générale, and other French and Arab banks, which contribute to the diversity of banking services available in the country. 3. Services like Western Union provide international money transfer facilities in Algeria, offering convenience for individuals and businesses engaged in cross-border transactions. 4. Despite the availability of international money transfer services, barriers to outward transfers and an outdated domestic transfer system pose challenges for investors, potentially hindering the efficiency of financial transactions. 5. The central bank has introduced a system allowing payments via checks and credit cards, but its adoption is still nascent. Few vendors have integrated these payment methods into their operations, limiting their widespread use. 6. Checks and credit cards are not common forms of payment in Algeria, with limited acceptance among vendors. Additionally, the presence of ATMs is sparse and mainly found in select locations such as five-star hotels. 7. In late 2010, the Algerian government retroactively banned commercial loans from foreign shareholders made after July 2009, indicating regulatory measures affecting foreign investment and financial activities in the country.	Strict regulations from the possibility of EU-imposed policy and an outdated financial infrastructure in Algeria create inefficiencies in financial transactions, complicating the trade finance process. This can delay trade operations and increase transaction costs, making trade less competitive. The dominance of state-owned banks and the sparse presence of EU-affiliated banks can lead to a lack of diverse and innovative financial products tailored for trade finance. This limits the ability of businesses to utilize effective and competitive trade financing options.

39 ITA. Country Commercial Guides. Available at: https://www.trade.gov/country-commercial-guides

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